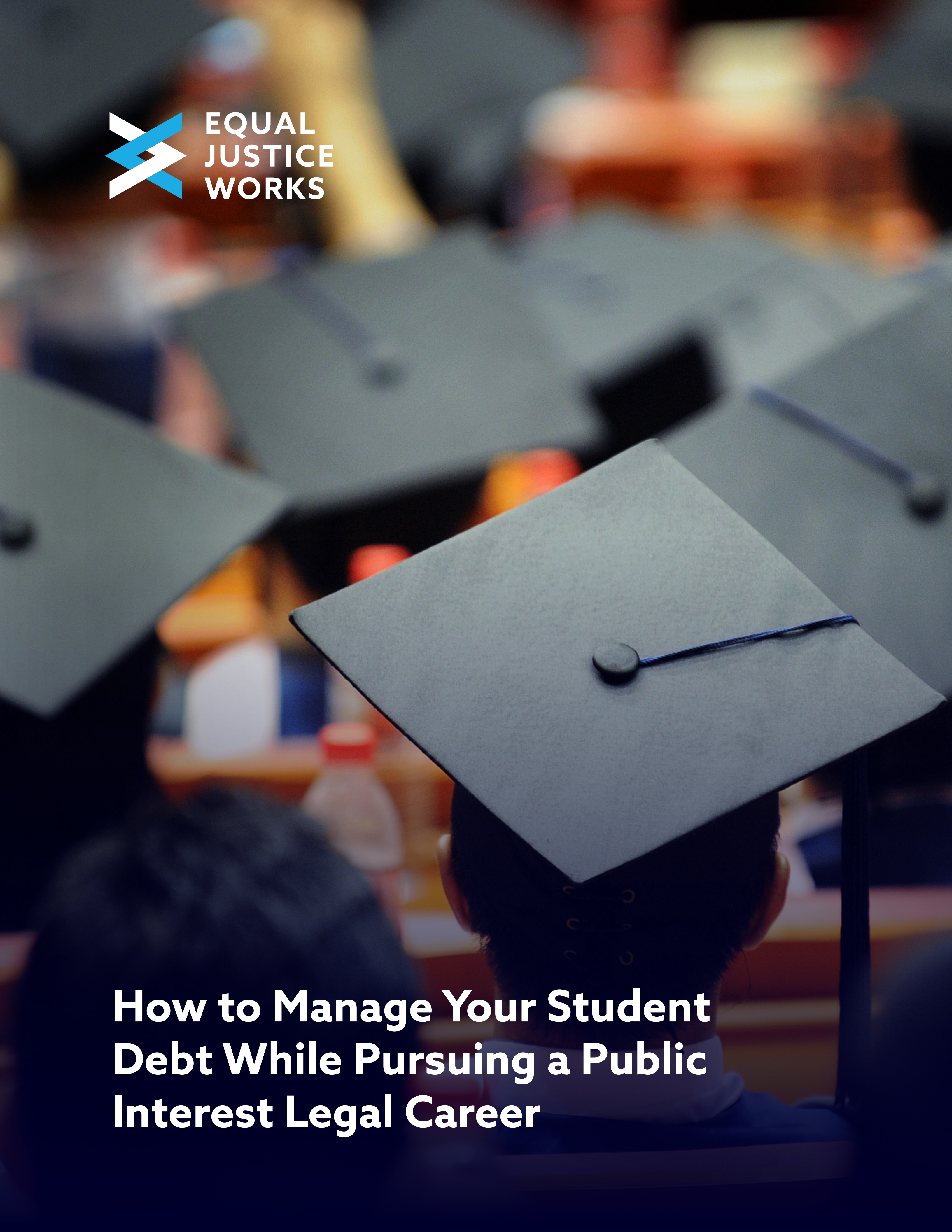

EQUAL JUSTICE WORKS

How to Manage Your Student Debt While Pursuing a Public Interest Legal Career

1730 M Street, NW, Suite 800
Washington, DC 20036
(202) 466-3686
www.equaljusticeworks.org

Equal Justice Works provides resources to help borrowers. For additional tools and information, please visit http://equaljusticeworks.org/studentdebt

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Foreword

In 2015, the average law school debt was well over $120,000 while the median public interest legal salary was only $47,000. By the time these debts are paid, law school graduates stand to spend more money on their student loans than they will on their homes and credit cards over a lifetime. For this reason, many law students and lawyers think the solution is to make as much money as possible, even at the expense of pursuing less lucrative public interest careers they love.

At Equal Justice Works, we are committed to ensuring that no law student or lawyer is deterred from a public interest legal career by the burden of student debt. And despite debt loads being so burdensome, Income-Driven Repayment plans, Loan Repayment Assistance Programs and Public Service Loan Forgiveness can make a long-term public interest legal career financially feasible.

Unfortunately, comprehensive information about debt management is not easily accessible. The goal of this e-book is to synthesize and simplify the complex array of repayment plans, financing options and loan forgiveness programs available to aspiring and current public interest lawyers like yourself. If we have succeeded, you will learn how to pursue a public interest legal career while minimizing the burden of student debt on your financial future. For your sake, and for the clients you will serve, we hope that we have succeeded.

David Stern
Executive Director
Equal Justice Works

Introduction

Equal Justice Works Student Debt Program

The cost of a legal education, and the resulting educational debt burden in the United States continues to grow at an alarming rate. The nationwide educational loan debt is over $1.3 trillion; that's more than double what we owe in car loans and credit card debt. Managing this growing debt burden is challenging for many law students and law school graduates alike, and the challenges are particularly great for those interested in lower-paying public service legal careers.

We believe that a legal education should lead to opportunities for happiness, public service and career success, and that educational debt should not stand in the way. Equal Justice Works is a leading supporter of programs and policies that make a law school education accessible and affordable for all who desire it. Our Student Debt program is devoted to advocating for, and facilitating participation in programs that make managing and repaying law school debt easier.

The Impact of Debt

According to the American Bar Association Presidential Task Force on Financing Legal Education, the average law graduate held between $88,000 (for public schools) and $127,000 (for private schools) in student debt.

This means that under a standard 10-year repayment plan, the average law graduate would end up paying between $990 and $1,429 in monthly loan payments. This is clearly unaffordable for many law graduates, particularly those working in public service legal careers, where the average entry-level salary ranges between $45,000 and $50,000.

How to Use this Book

For first-time readers:

Ideally, you should read every word of this book. By doing so, you can become familiar with the details of every program available for managing and repaying federal student debt.

For those who have read the old version:

You should also re-read every word of this e-book, as most sections have expansive changes. Pay particular attention to Chapters 1-2 and the FAQs. These sections now include a discussion on new topics, including but not limited to: how to discharge student loans in bankruptcy, how to deal with the taxability of loans cancelled under the IDR plans, and present efforts to preserve PSLF.

Once you have read the entire e-book, utilize it as a reference guide for all future student debt issues. We have hyperlinked the various sections within the table of contents to make it simple to return to specific topics.

DISCLAIMER: We are neither tax attorneys nor financial planners. Our referrals may not guarantee the results you desire. This e-book should be used as an information guide only; use your best judgement based on your own unique circumstances and consider other resources.

CHAPTER 1

Understanding Your Student Loans

IT IS IMPORTANT TO UNDERSTAND THE BASICS OF STUDENT LOANS AND THE TYPES OF LOANS AVAILABLE. THE TYPES OF STUDENT LOANS YOU BORROW WILL AFFECT YOUR ELIGIBILITY FOR BORROWER PROTECTIONS AND DEBT RELIEF PROGRAMS SUCH AS INCOME-DRIVEN REPAYMENT PLANS AND PUBLIC SERVICE LOAN FORGIVENESS. REFER TO THIS CHAPTER WHEN MAKING DECISIONS ABOUT BORROWING AND LOAN CONSOLIDATION.

Private Loans vs. Federal Loans

Law school can be financed entirely from federal loans (Direct and Grad Plus). Financing a law school education this way give borrowers numerous additional protections that do not come with private loans. Private loans should be a last resort.

PRIVATE OR COMMERCIAL LOANS are given out by lenders and are not associated with the federal government. Private and commercial lenders include banks, credit unions, state agencies and schools. These loans generally come with the following stipulations:

- You may be required to make payments while in law school.
- They may have variable interest rates as high as 18 percent.
- Require excellent credit or a cosigner.
- Do not have loan forgiveness plans.
- Often have limited repayment options.

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On the other hand, **FEDERAL LOANS** are provided by the Department of Education and serviced by private companies. Depending on the type of federal loan, these loans generally include the following:

- Fixed interest rates and tax deductible interest
- Offer forbearance and deferment options,
- Rarely require a co-signer or excellent credit
- Can be consolidated with other federal loans
- Can be forgiven in certain circumstances
- Offer various repayment options, including options for payments based on income.

Federal loans include Stafford (now referred to as Direct), Grad PLUS and Parent PLUS, Perkins, FFEL, and Consolidations Loans. Let's talk about a few of these federal loans in a little more detail.

DIRECT SUBSIDIZED LOAN: This type of loan is available only for those getting an undergraduate degree. It is given out in varying amounts, and is dependent on financial need. Students can borrow up to $23,000 in Subsidized Stafford Loans over the course of their undergraduate program. This includes up to $5,500 in the first year, $6,500 in the second year, and up to $7,500 in each subsequent year. These loans had fixed interest rates, of 3.76 percent for loans taken out for the 2016-2017 school year. (A new fixed rate is determined every year.) These loans require enrollment in an undergraduate program at least half time. Finally, you pay no interest on your Direct Subsidized Stafford Loans under three conditions:

- You must be in school at least half-time
- During your grace period.
- During certain periods of deferment.

DIRECT UNSUBSIDIZED LOAN: This loan is available for those paying for a law school education. You can borrow up to $20,500 per year, but no more than $138,500 total. This $138,500 lifetime borrowing limit includes amounts you may have borrowed in Subsidized Stafford Loans while pursuing your undergraduate degree. Unlike Subsidized Stafford Loans, these loans do not require that you show financial need, however, interest does accrue unless you pay it while you are enrolled in school, during grace periods, or in periods of forbearance or deferment. Finally, these loans require you to be enrolled in school half-time and have a current fixed interest rate of 5.31 percent for the 2016-2017 school year.

PERKINS LOANS: Perkins Loans are federal loans that can be used to pay for law school. These loans have fixed interest rates of 5 percent. Unlike other federal loans where the lender is the Department of Education, the lender for Perkins Loans is your individual law school. Perkins Loans allow you to borrow up to $8,000 annually, and up to $60,000 over your lifetime. Perkins Loans have no origination fees, a 9-month grace period, and generous cancellation provisions. For example, a Peace Corps member can have up to 70 percent of their Perkins Loans principal and accrued interest forgiven.

Be aware however, that Perkins Loans possess a few difficulties. Not every law school participates in the Perkins Loans program, and if a law school participates, there is no guarantee it possesses enough funding to give every student who qualifies the full $8,000. Additionally, the Perkins Loans requires you to demonstrate financial need, so you may not even qualify to borrow the full $8,000. Finally, you cannot repay Perkins Loans under the Income-Driven Repayment (IDR) plans (unless you consolidate them into a Direct Consolidation loan) and Perkins Loans do not qualify for Public Service Loan Forgiveness.

GRAD PLUS LOANS: Grad PLUS Loans occupy a crucial spot in the lives of those attempting to fund law school via loans. Grad PLUS Loans allow you to borrow the full cost remaining after you have maxed out free money (scholarships and grants), Direct Unsubsidized Loans, and Perkins Loans. Grad PLUS Loans had a fixed interest rate of 6.31 percent for the 2016-2017 school year, no annual or lifetime borrowing limits, rather large origination fees (over 4 percent) and, unlike other federal loans, require a credit check.

NOTE: You should, and must, max out other federal financial aid options before applying for and receiving Grad PLUS Loans.

Unlike credit checks for private loans, you qualify for Grad PLUS Loans as long as you do not have an "adverse credit history." You do not acquire an adverse credit history simply by being late on your bills. The Department of Education says that an adverse credit history results due to:

1. Bankruptcy, repossession, foreclosure, wage garnishments or tax liens in the past five years
2. Unpaid collection accounts
3. Contracts terminated due to default
4. Student loans being charged-off
5. Current accounts being 90 days or more behind

However, even a determination you have an adverse credit history does not mean that you cannot receive Grad PLUS Loans. You can appeal this decision. To do so, you must document to the Department of Education's satisfaction that you have an adverse credit history due to extenuating circumstances.

Documenting extenuating circumstances can be tricky. However, the Department of Education does provide some guidance by laying out a list of examples of extenuating circumstances. This list is by no means conclusive, but is certainly instructive. A few items on the list include:

- For a charged off account, collection account, or a current account that is more than 90 days late, extenuating circumstances could include: evidence that the account has been paid in full, evidence that a repayment arrangement has been made, evidence that charged off student loans have been consolidated, evidence that the debt was charged off in bankruptcy, and evidence that debt is no longer in default.
- For wage garnishments, extenuating circumstances could include evidence that garnishment has been released.
- For repossessions, extenuating circumstances could include evidence that the financial agreement associated with the repossessed asset has been paid in full or that you have entered into a repayment arrangement.

The full list can be found here. Upon accessing the web page, scroll down until you access the section on "Document Extenuating Circumstances (appeal)."

NOTE: The Department of Education does not consider unemployment, by itself, to be an extenuating circumstance. However, evidence of unemployment often serves as a contributing factor in documenting the appropriate extenuating circumstances.

In the event that you are unsuccessful in documenting extenuating circumstances, you will also be able to acquire an endorser. As long as your endorser does not have an adverse credit history, you will be able to get your Grad PLUS Loan. It should be noted that the endorser will not be able to document extenuating circumstances. While the endorser will be required to repay your Grad PLUS Loan in the event you do not, if you ever consolidate your Grad PLUS Loans into a Direct Consolidation Loan, your endorser will be removed from liability. This can often be a selling point in the event you have a potential endorser who is reluctant.

NOTE: You will be required to undergo a credit check for each Grad PLUS Loan you receive (usually no more than once a year). Thus, in the event you continue to possess an adverse credit history, you will be required to document extenuating circumstances or acquire an endorser for each separate Grad PLUS Loan.

Important note for borrowers who took out loans before July 1, 2010

Your federal student loans may have originated from one of two major federal student loan programs: the Federal Family Education Loan (FFEL) Program or the Federal Direct Loan Program. Loans from the FFEL Program were issued by private banks and lending institutions like Sallie Mae, but are still federal student loans because they are guaranteed by the government. Federal Direct Loans are federal student loans issued directly by the U.S. Department of Education. Congress discontinued the FFEL Program as part of the Health Care and Education Reconciliation Act of 2010 and no subsequent loans were allowed under the program after June 30, 2010.

Your eligibility for repayment plans and loan forgiveness will be limited if you possess loans from the FFEL program. For example, you can only access one Income-Driven Repayment plan and do not qualify for Public Service Loan Forgiveness. If you wish to qualify for these programs and have loans from the FFEL program, you will need to consolidate your loans into the Federal Direct Loan Program.

Fixed v. Variable Interest Rates

Private loans typically have variable interest rates, while all federal loans have fixed interest rates that are determined annually. Fixed Interest Rates remain at the same percentage of your loan. Variable Interest Rates change as the market interest rate changes. Variable interest rates often start out lower than fixed rates, but often increase well above fixed interest rates in a short period of time. For example, the current fixed rate for Grad PLUS Loans is 6.31 percent while the average variable rate for private education loans is 8.87-9.76 percent.

NOTE: For a few borrowers with very good credit, a high salary and the financial ability to repay their loans on an accelerated schedule if their interest rate increases, these variable interest rates may provide some opportunity to save money in the short term.

Interest Rates for Direct Loans First Disbursed on or After July 1, 2016

Loan Type	Borrower Type	Loans first disbursed on or after 7/1/16 and before 7/1/17
Direct Subsidized Loans	Undergraduate	3.76%
Direct Unsubsidized Loans	Undergraduate	3.76%
Direct Unsubsidized Loans	Graduate or Professional	5.31%
Direct PLUS Loans	Parents and Graduate or Professional Students	6.31%

Origination Fees

Anytime a discussion of federal loans occurs, it is important to discuss **ORIGINATION FEES**. An origination fee is "an up-front fee charged by the Department of Education for processing a new loan application for a federal loan." Due to these fees, the amount of money your educational institution will receive will be less than the amount you borrow. However, as the Department of Education notes, "you are responsible for repaying the entire amount you borrowed and not just the amount you received." The amount of these fees vary by federal loan type. Presently, these fees can range from one to over four percent for new loans.

An example of how origination fees can affect your borrowing potential:

Nancy No-Fees is starting law school. Nancy fills out an application to borrow $35,000 in Direct PLUS Loans. Her loan will be disbursed January 25, 2017. This means her origination fee is 4.276 percent. While Nancy requested $35,000, her law school will only receive $33,503.40 to put toward the cost of Nancy's legal education. This means that Nancy will have to pay back an additional $1,496.60 on this single loan just in fees.

Loan Type	First Disbursement Type	Loan Fee
Direct Subsidized Loans and Direct Unsubsidized Loans	On or after 10/1/15 and before 10/1/16	1.068%
	On or after 10/1/16 and before 10/1/17	1.069%
Direct PLUS Loans	On or after 10/1/15 and before 10/1/16	4.272%
	On or after 10/1/16 and before 10/1/17	4.276%

Master Promissory Note (MPN)

The Master Promissory Note (MPN) is the document you sign in order to receive a federal loan from the Department of Education. An MPN is not required for each federal loan you receive. The same MPN can be used for up to ten years for Unsubsidized Stafford Loans, and for Grad PLUS Loans. This means all Unsubsidized Stafford Loans in a ten-year period use the same MPN while all the Grad PLUS Loans in a tem-year period use another.

NOTE: If you require an endorser for a Grad PLUS Loan, you must fill out a separate MPN for each loan requiring an endorser, even if the endorser is the same for all loans.

THE MPN IS EXTREMELY IMPORTANT AND SHOULD BE READ IN FULL. All the terms and conditions of your federal loans are laid out in the MPN and includes, but is not limited to, the following:

- Interest rates, how interest is calculated, and when interest accrues and capitalizes;
- Deferment/forbearance options, and what repayment plans are available;
- Loan cancellation provisions, information on loan acceleration and default
- Loan fees, how the loan proceeds may be used, and how loan disbursement will occur;
- What happens if payments are late;
- Protections for military personnel, options for loan discharge, how loan proceeds can be used;
- Your promise to repay (even if you cannot find employment, did not finish your degree, and/or are not satisfied with educational quality received).

Filling out the MPN

You can submit a hard copy MPN or fill out the MPN online. The electronic MPN is filled out by going to StudentLoans.gov. Additionally, StudentLoans.gov is where you go to get a hard copy of the MPN. In either case, you will need an FSA ID and password. If you do not possess an FSA ID and password, you can acquire one at fsaid.ed.gov. For reference purposes, a sample MPN can be found here.

You will be asked to provide information about yourself and your school, three references, confirm that you have read the terms of the MPN, and sign the MPN.

You can submit a hard copy MPN by mailing it to:

U.S. Department of Education
P.O. Box 5692
Montgomery, AL 36103-5692

Once the MPN has been submitted, you will receive a disclosure statement. The disclosure statement provides information on when your loan will be disbursed, fees deducted prior to disbursement, and information about you and your school. Additionally, the disclosure statement will lay out how you may cancel your loans prior to disbursement. As with the MPN, you should read the disclosure statement in full.

NOTE: You will receive a disclosure statement for each separate federal loan, even if you are not required to sign a new MPN.

Delinquency and Default

Choosing a federal loan with more protections over a private loan with less protections can be the difference between paying your loans on time and having your loans being placed in a delinquent or default status.

When a current borrower fails to make required monthly payments on student loans, the loan first becomes **delinquent** and then later goes into **default**. A loan becomes delinquent the day after payment is due. A delinquency is reported to major credit bureaus after 90 days. Once the delinquent student loan has been late for **91 days** (for private loans) or **270 days** (for federal loans), the loan is considered to be in default.

IF YOU DEFAULT ON YOUR FEDERAL LOANS, the government can seize tax refunds, garnish your wages, and take a portion of Social Security payments – all without a court order – and **you will lose eligibility for new student loans and grants.** Private lenders' collection powers are not as strong, but their collections process is persistent (and often harassing).

If you default on either your private or federal loans, it affects your credit and could prevent you from securing a credit card, car loan, mortgage, apartment or job. You may even lose your professional license. You are likely to face these consequences if you go into default because the extremely high standard and complex procedure required to receive bankruptcy protections for student loans makes it an unfeasible option for many federal and private loan borrowers.

As a result, eligibility for federal relief and forgiveness programs like income-driven repayment plans and Public Service Loan Forgiveness, and protections such as fixed interest rates, deferment and forbearance, are vital safeguards for student loan borrowers who will be repaying their loans for at least ten years and often longer. **A law student who must borrow beyond the Stafford Loan limits (currently $20,500 annually) should utilize Grad PLUS Loans to pay for their education rather than relying on private loans.**

Curing Default

Being in default is a scary thing. Garnished wages. Persistent phone calls. Damaged credit. However, there are steps for both private and federal loans that can allow the borrower to restore their loans to a current status. If you are in default on your federal loans, you can make your loans current again through one of four pathways:

1. **REPAY ALL OF THE UNPAID LOAN BALANCE IMMEDIATELY.**
2. **CONSOLIDATE YOUR LOANS.** This option allows you to cure your default status on your loans by consolidating your defaulted loans into a Federal Direct Consolidation loan. However, this loan must be repaid under the PAYE, REPAYE, IBR or ICR plans. (See the discussion on Income-Driven Repayment Plans in Chapter 3.)

NOTE: Generally, a single federal loan cannot be consolidated into a Direct Consolidation loan. However, for defaulted loans that are consolidated for the purpose of removing a default status, a single defaulted loan can become a Direct Consolidation loan.

3. **ENTER INTO LOAN REHABILITATION.** Loan rehabilitation involves entering into an agreement with the Department of Education to cure the default status on your loans. You will make a separate loan rehabilitation agreement for each loan that is in a default status.

U.S. DEPARTMENT OF EDUCATION REHABILITATION AGREEMENT

PLEASE PRINT

First Name: ____________________
Last Name: ____________________
Address Line 1: ____________________
Address Line 2: ____________________
City, State Zip: ____________________

RE: U.S. Department of Education
Rehabilitation Balance $
ED Account Number: ____________________
Home Phone: ____________________
Cell Phone: ____________________

You have expressed to us that you wish to rehabilitate the following defaulted Federal Family Education Loan (FFEL) program student loan(s), Federal Perkins, National Direct, National Defense and/or Direct Loan(s) held by the U.S. Department of Education (ED):

Debt ID Number(s):

We have calculated your monthly repayment amount to be $ ________ based on information about your income that you have provided to us. If you have not submitted the required financial documentation for ConServe to calculate your payment amount, this document does not constitute a valid loan rehabilitation agreement.

If you agree to make monthly payments of this amount, sign the agreement and return it to us at the following address:

ConServe
PO Box 457
Fairport, NY 14450-0457
Email: mail@conserve-arm.com
Toll Free Telephone Number: (866) 521-3100

Please retain a copy of the signed Repayment Agreement for your records

If you fail to return the signed rehabilitation agreement, it is null and void.

If you object to the monthly payment that we have calculated, we will recalculate your monthly payment based on more detailed information related to your financial circumstances. If you wish for us to recalculate your monthly payment, notify us of your objection by telephone or in writing within 15 days of the date of this letter. You must submit a financial statement form and any required supporting documentation within 30 days of the date of this letter. You can obtain the form at the following website: www.payconserve.com or by calling us at 866-521-3100. Based on the information that you submit, we will calculate a reasonable and affordable monthly payment.

Under the rehabilitation agreement you must do the following:

- **Make nine payments within ten consecutive months.** These monthly payments will automatically be 15 percent of your discretionary income. However, in the event that such a payment is not affordable to you, you can fill out a *Financial Disclosure for Reasonable and Affordable Rehabilitation Payments* form. This form will allow your payments under the rehabilitation agreement to be as low as $5, based on the details provided about your financial situation.
- Make payments no later than **20 days after the due date** for each payment.

Loan rehabilitation has many perks:

- Once five payments have been made according to the loan rehabilitation agreement, all wage garnishments are cancelled.
- Once nine payments have been made according to the loan rehabilitation agreement: (1) the default status is removed from your loans; (2) you regain access to deferments, forbearances, IDR plans, and loan forgiveness; (3) any record of your loans being in default are removed from your credit report with all three major credit reporting agencies; and (4) your access to more federal financial aid is restored.

NOTE: A loan can only be rehabilitated once during the life of the loan.

4. **HAVE YOUR STUDENT LOANS DISCHARGED IN BANKRUPTCY.** Bankruptcy is the only solution that can be used for getting private loans out of default. Federal loans can also use this option. While this is not an easy task, it is a possible one. The standard you must meet to have student loans discharged in bankruptcy is proving that your student loans are causing you an **undue hardship. This requires proving to a federal court all of the following:**

   1. **That the debtor cannot maintain a minimal standard of living for him/herself and his/her dependents if forced to repay student loans.** A minimal standard of living means that the borrower must have:
      - Shelter that is furnished, heated, cooled, and pest-free;
      - Basic utilities such as electricity, water, and natural gas;
      - Food and personal hygiene products;
      - Clothing and footwear;
      - Access to a way of cleaning clothing;
      - access to a vehicle (including money to pay for registration fees, gasoline, routine maintenance and unexpected repairs) for the purpose of traveling to work, stores and medical care providers;
      - Health insurance, including the ability to pay the required copays and/or deductibles; and
      - The ability to provide oneself with a source of recreation.

As one court put it, "a minimal standard of living mandates that a borrower not live in poverty…in order to qualify for a discharge of their student-loan obligation."

2. **The presence of additional (and exceptional) circumstances that suggest the borrower will maintain an inability to repay their student loans for an extended period of time.** Circumstances can include a disability, old age, a large number of dependents, evidence that physical health makes it impossible for the borrower to work, or evidence showing a "total foreclosure of job prospects in the area of training."
3. **That the debtor has made good faith efforts to repay the loans.** Courts often look at six factors when determining whether one made a good faith effort to repay their student debt:
   - **Was the debtor's failure to repay a student loan obligation truly because of factors beyond his/her reasonable control?** For this factor, courts often consider things like whether or not the borrower took part in IDR plans, forbearance/deferment options, or other potential payment arrangements offered per their student loan agreements.

- **Has the debtor realistically used all resources to repay the debt?**
- **Is the debtor using his/her best efforts to maximize earning potential?** This factor weighs in favor of the borrower if the borrower can prove that they have attempted to find work and/or are working in a position within their educational field/vocational profile that would allow them to maximize their earning potential.
- **How long after the loan first became due did the debtor seek to discharge the debt?** Courts have held that a bankruptcy discharge that is filed less than a year after student debt repayment initially begins would cause this factor to weigh against the borrower.
- **What is the overall percentage of the student loan debt as compared to the borrower's overall debt?** Unfortunately, with regards to this factor, courts rarely discuss it.
- **Has the debtor obtained any tangible benefit from the student loan obligations?** This factor will almost always weigh against a borrower who has received college credit and/or a college degree in exchange for the educational debt borrowed. However, in the event that the student was unable to receive credit and/or degree (for example, say the university closed due to engaging in fraudulent practices), this factor would weigh in favor of the borrower.

A FEW ADDITIONAL POINTS ABOUT STUDENT LOAN DISCHARGE VIA BANKRUPTCY:

- Every federal circuit uses this test for determining whether student loans can be discharged in bankruptcy except the Eighth Circuit, which uses the "totality of the circumstances test." This test looks at future financial resources, reasonably necessary expenses and any other relevant facts in order to determine whether your student debt qualifies for discharge in bankruptcy.
- Because there exists a strong presumption against the ability to discharge student loans in bankruptcy, failure to prove any one factor results in the borrower failing to prove the existence of an undue hardship.

Deferments and Forbearances

Sometimes, it can be hard to maintain your student loan payments. The benefit of federal loans is that the federal government offers options for current borrowers who are behind on their payments. Two available options are deferments and forbearances. Deferments and forbearances can be used to prevent a delinquent loan from going into default. They can also transform a loan in delinquent status to current status, and give the borrower additional time to pay due to various life circumstances. When certain requirements are met, such as being enrolled in school or becoming permanently disabled, a deferment or forbearance allows a borrower to delay making payments on student loans.

What is a Deferment?

A **DEFERMENT** is a period during which repayment of principal and interest of federal student loans is delayed.

Deferments are available for the following federal loans:

- **Federal Perkins Loans**
- **Direct Loans/Federal Stafford Loans**
- **Direct PLUS Loans**
- **Direct Consolidation Loans**
- **FFEL Loans**
- **FFEL PLUS Loans**
- **FFEL Consolidation Loans**

Interest does not accrue during a deferment on Direct Subsidized Loans/Subsidized Federal Stafford Loans, the subsidized portion of Direct Consolidation Loans, or the subsidized portion of FFEL Consolidation Loans and Perkins Loans. However, interest does continue to accrue on all other federal loans.

To qualify for a deferment, the current borrower must meet one or more of the following criteria:

- **Be enrolled at least half time in school**
  - During a half-time period, deferment is available as long as the current borrower remains enrolled at least half time. This includes the summer between school years.
- **Be enrolled in a graduate fellowship program or approved rehabilitation program for the disabled.**
  - Deferment is available as long as the current borrower is enrolled in the eligible fellowship or rehabilitation program.
- **Be unemployed or unable to find full-time employment.**
  - The borrower must register with a public or private employment agency (if one is available within 50 miles), make at least six attempts every six months to locate full-time employment, and accept full time employment regardless of whether or not the borrower feels overqualified for the employment.
  - **Full-time employment** is employment of at least 30 hours a week lasting three months or more.
  - The deferment is available for up to three years. This time can be used all at once or spread throughout the repayment period of the loan.
- **Participation in the Peace Corps**
  - The deferment is available for up to three years. The current borrower must remain an active member of the Peace Corps program.
- **Active military service during a war, military operation, and/or national emergency.**
  - The deferment is available as long as the current borrower remains on active duty during an eligible military event.
- **Experiencing an economic hardship**
  - To prove an economic hardship, the current borrower must show that (1) Eligibility for a state or federal public assistance program, such as food stamps or (2) earning no more than 150 percent of the federal poverty rate despite working more than 30 hours a week.
  - The deferment is available for up to three years, but requires an annual recertification of the economic hardship.

NOTE: Additional protections are available for federal loans that were disbursed before July 1, 1993. These include being a working mother, being on parental leave, being temporarily disabled, engaged in public service or working as an educator in an area where there is a teacher shortage. Contact your loan servicer for information on these deferments.

What is Forbearance?

A **FORBEARANCE** allows a current borrower of federal student loans to suspend repayment of loan principal and interest in the event that they do not qualify for a deferment. No payments are due while loans are in forbearance, but interest will continue to accrue on all your federal loans. A forbearance can only be received for up to 12 months. Forbearances are available for the following federal loans:

- **Federal Perkins Loans**
- **Direct Loans/Federal Stafford Loans**
- **Direct PLUS Loans**
- **Direct Consolidation Loans**
- **FFEL Loans**
- **FFEL PLUS Loans**
- **FFEL Consolidation Loans**

A forbearance can be discretionary or mandatory. A discretionary forbearance can be granted by your loan servicer at any time but the decision is the loan servicer's to make. A discretionary forbearance can be requested based on (1) financial hardship, (2) natural disaster (90 days), and/or (3) illness.

Mandatory forbearances by law must be granted by the loan servicer and can be requested for any of the following reasons:

- **The current borrower is enrolled in a medical or dental residency program.**
  - The residency program must be required in order for the borrower to begin their profession.
- **The monthly payment due by the current borrower is more than twenty percent of the borrower's gross monthly income.**
  - This is considered an **administrative forbearance** and the length of the forbearance is usually only until the loan servicer is able to place the borrower within a more affordable repayment plan.
- **The current borrower is enrolled in AmeriCorps or Peace Corps.**
- **The current borrower is an activated member of the National Guard, but not eligible for a military deferment.**

A forbearance must be requested directly through the current borrower's loan servicer. A forbearance is renewable as long as the current borrower remains eligible.

NOTE: While a forbearance or deferment can seem ideal for those struggling to make monthly payments, consider using an Income-Driven Repayment (IDR) plan as an alternative. An IDR plan allows monthly payments for student loans based on your income. So, in the event a reduced income affects your ability to make monthly payments, an IDR plan can be a helpful option. The as monthly payments can be as low as $0. If you qualify for such reduced monthly payments, you should consider the option before opting for forbearance or deferment, because your loan payments (even $0 payments) count toward loan cancellation and Public Service Loan Forgiveness, while periods of forbearance and deferment (with the exception of hardship deferments, which do count toward loan cancellation) generally do not. Furthermore, IDR plans can provide additional interest accrual protections. Visit Chapter 3 for more information on IDR plans.

Keep Track of Your Loans

If you are a current borrower, it is important to know the specific types of loans you have borrowed so that you are able to determine what you need to do to qualify for federal programs like income-driven repayment plans and Public Service Loan Forgiveness.

To learn what loans you are eligible for, or what loans you currently have, follow these easy steps.

1. Go to the National Student Loan Data System
2. Click on "Financial Aid Review"
3. Read the privacy policy and click "accept"
4. Enter your FSA ID and password. If you do not have an FSA ID and password, click "create an FSA ID" on the right side of the log-in screen. Follow the instructions to set up your FSA ID and password, then repeat steps 1-3 to get back to the login page.
5. Once you log in, you will view a screen with all of your loan information. The screen will display the type of loan, whether the loan is a Direct or FFEL loan, the balance, disbursed amount, outstanding principal, outstanding interest, total amounts for each type of federal loan you possess, and the loan date.

NOTE: The National Student Loan Data System will only provide information about federal loans. Information about private loans can be found by contacting the lender or checking your credit report.

Loan Consolidation

When law school is over, you may find yourself juggling multiple federal loans. In this situation, a federal consolidation loan may be helpful. A consolidation loan may allow you to lower your monthly payment while repaying on an extended schedule. Plus, a federal consolidation loan provides continued access to many of the protections given by individual federal loans, such as a fixed interest rate, income driven repayment options, loan cancellation, and even Public Service Loan Forgiveness.

NOTE: In the past, federal consolidation loans may have been obtained through FFEL lenders or through Federal Direct, therefore your consolidation loan may be from either program. Any federal consolidation loans obtained after June 30, 2010 will be Federal Direct Consolidation Loans.

The Department of Education allows existing federal student loans to be consolidated into one loan via a Direct Consolidation Loan. When loans are consolidated, the existing individual loans are paid off and the current borrower will make one payment on the consolidation loan beginning within 60 days after the loan is disbursed. This loan will have a fixed interest rate. This interest is calculated using the weighted average of the interest rates of the loans being consolidated, rounded up to the nearest one-eighth of one percent. This interest rate has no cap. It costs you nothing to consolidate via a Direct Consolidation Loan, and there is no credit check.

Total Federal Loan Balance	Direct consolidation loan repayment term
Less than $7,500	10 years
$7,500 to $9,999	12 years
$10,000 to $19,999	15 years
$20,000 to $39,999	20 years
$40,000 to $59,999	25 years
$60,000 or more	30 years

Source: Federal Student Aid Website

Repayment periods under the Standard or Graduated Repayment plans for consolidation loans vary according to the amount of your outstanding federal loans that exist at the time you apply for a Direct Consolidation Loan.

NOTE: Repayment periods remain the same under the IDR plans (REPAYE, PAYE, IBR, and ICR) regardless of the amount of outstanding federal loans you have at the time of consolidation.

To determine interest rates, Federal Direct Consolidation Loans use a **weighted average**.

A **weighted average interest rate** ensures that the interest rates on your new consolidation loan is the same as the interest rates on your earlier loans.

EXAMPLE: ANDY HAS TWO LOANS. ONE LOAN IS FOR $10,000 AT 6 PERCENT AND THE OTHER LOAN IS FOR $15,000 AT EIGHT PERCENT. TO CALCULATE ANDY'S WEIGHTED INTEREST RATE, WE DO THE FOLLOWING:

Step 1. Multiply each loan amount by its interest rate to obtain the loans weight factor.

$10,000 x .06 = $600

$15,000 x 0.08 = $1,200

Step 2. Add the weight factors together.

$600 + $1200 = $1,800

Step 3. Add the loan amounts together to obtain the total loan amount.

$10,000 + $15,000 = $25,000

Step 4. Divide the total from Step 2 by the total from Step 3.

$1,800 / $25,000 = 0.072

Step 5. Multiple the number from Step 4 by 100. Add a percent sign.

0.056 x 100 = 7.2%

Step 6. Then round the number from Step 5 to the nearest 1/8 percent

7.2% rounded to the nearest 1/8% is 7.25%. This would be Andy's fixed rate for his consolidation loan.

Federal Loans Eligible for Consolidation

The following federal loans are eligible for consolidation:

- **Direct Subsidized Loans**
- **Direct Unsubsidized Loans**
- **Subsidized Federal Stafford Loans**
- **Unsubsidized Federal Stafford Loans**
- **Direct PLUS Loans**
- **All loans from the Federal Family Education Loan (FFEL) Program (except for FFEL Spousal Consolidation Loans)**
- **Federal Perkins Loans**

NOTE: It is important to know that a Direct Consolidation Loan restarts the clock for ALL forgiveness programs. For example, Public Service Loan Forgiveness requires borrowers to make 120 monthly payments (in addition to other criteria discussed later) in order to have their loan balance forgiven. So a borrower who consolidates their existing loans into a Direct Consolidation Loan still has to make 120 payments on the Direct Consolidation Loan, regardless of how many payments the borrower had made on the separate loans prior to the consolidation.

Consolidating FFEL Loans

FFEL Loans, including FFEL Consolidation Loans (except FFEL Spousal Consolidation Loans) can be consolidated into a Direct Consolidation Loan in order to take advantage of Public Service Loan Forgiveness and the PAYE, REPAYE, and ICR plans (all loan benefits only available for Direct Loans).

Consolidating Parent PLUS and Perkins Loans

Parent PLUS and Perkins Loans generally are only eligible for programs like income-driven repayment plans and Public Service Loan Forgiveness when part of a Direct Consolidation loan.

Borrowers of Parent PLUS Loans who entered repayment on or after July 1, 2006 are eligible to consolidate into a Direct Consolidation loan. However, that loan is only eligible for ICR, not for IBR, PAYE, or REPAYE. Thus, consolidating a Parent PLUS loan and enrolling in ICR is the only path to Public Service Loan Forgiveness for borrowers with Parent PLUS Loans.

NOTE: Borrowers who include non-Parent PLUS loans in a Direct Consolidation loan that includes Parent PLUS Loans will also only be eligible for ICR plan. Consolidate your Parent PLUS Loans separately if it will be advantageous for you to enroll in an income-driven repayment plan other than ICR for your non-Parent PLUS Loans. You can read about major differences between these plans in Chapter 3.

Federal Perkins Loans include their own cancellation provisions for different professions and categories of public service that may be more advantageous than Public Service Loan Forgiveness and you may be able to defer payments while you are performing service that qualifies for Perkins cancellation. These provisions will be lost if you consolidate your Perkins Loan. Therefore, while you will need to consolidate Perkins Loans for those to be eligible for an income-driven repayment plan or Public Service Loan Forgiveness, you always should consult with the school from which you obtained a Perkins Loan to find out whether you qualify for Perkins cancellation before consolidating.

Private Loans and Loan Consolidation

Private loans cannot be consolidated into a federal direct consolidation loans. However, private consolidation loans are often available from private lenders. For more information on these, contact your lender or an outside private institution of your choice. These loans are typically linked to factors like your credit score and present income, but may help lower your monthly payments. More information on private lenders offering consolidation loans can be found here.

How to Consolidate Your Loans

1. Go to the FSA website at https://studentloans.gov.
2. Log in with your FSA ID and password. If you do not have an FSA ID and password, you can acquire one at https://fsaid.ed.gov.
3. Select the option from the left column named "Apply for Loan Consolidation."
4. Click "start" on the next screen.
5. Read the "Instructions for Completing Federal Direct Consolidation Loan Application and Promissory Note." A copy of those instructions can be found here.
6. Provide the personal information required on the application. You will be asked to provide your full name (Item 1), any former names (Item 2), social security number (Item 3), date of birth (Item 4), permanent address (Item 5), telephone number (Item 6), email address (Item 7), driver's license information (Item 8), employer information (Item 9), and work phone number (Item 10).
7. Provide contact information for two references (Items 11-12) who have known you for at least three years, and live at separate addresses (does not live at your address) in the United States.
8. Provide information on the loans you desire to consolidate. All of your existing federal loans are populated automatically, but you can opt out of having any individual federal loans consolidated.

A few reminders when deciding which loans to consolidate:

- Consolidating FFEL loans make them eligible for Public Service Loan Forgiveness and participation in all the income-driven repayment plans (normally, FFEL loans can only participate in IBR).
- If you consolidate a Parent PLUS Loan, you must repay this loan under ICR in order for payments on the new consolidation loan to count toward PSLF.
- You can never consolidate a spousal FFEL Consolidation Loan into a Direct Consolidation Loan.
- Consolidating Perkins Loans will result in the Perkins-specific loan protections (including cancellation provisions) being forfeited on those loans.
- If you are consolidating a loan that is in a default status, the new consolidation loan must be repaid under the IBR, ICR, REPAYE or PAYE plan.
- You can consolidate a single Direct Federal Loan, FFEL Federal Loan, Direct Consolidation Loan, or FFEL Consolidation Loan (excluding spousal consolidation loans) into a Direct Consolidation Loan in order to (1) participate in Public Service Loan Forgiveness, (2) remove your loan from a default status, or (3) remove your loan from a default aversion status.
- Previous payments made on loans being consolidated and not the newly formed Direct Consolidation Loan will not count toward (1) the number of years of repayment required for loan cancellation under the IBR, PAYE, ICR or REPAYE plans or (2) the 120 qualifying payments required for Public Service Loan Forgiveness.
- Accrued interest on all loans consolidated become capitalized, as the accrued interest on the loans consolidated adds to the new principal of the consolidation loan.

Standard and Graduated Plans: Maximum Repayment Periods

Total Education Loan Indebtedness	Maximum Repayment Period
Less than $7,500	10 years
$7,500 to $9,999	12 years
$10,000 to $19,999	15 years
$20,000 to $39,999	20 years
$40,000 to $59,999	25 years
$60,000 or more	30 years

9. Once you have decided on what loans you want to consolidate or not consolidate (Items 13-16), you then decide on whether you want to forfeit any existing grace period remaining on the individual federal loans you are desiring to consolidate (Item 17). Under law, once individual loans are consolidated, you lose any remaining portion of the grace period on those loans. However, in the event you want to retain your remaining grace period(s) on individual loans, fill out Section 17. This will result in the processing of your Direct Consolidation loan application being delayed until about thirty days prior to the end of the grace period(s).

NOTE: Leaving Item 17 blank will result in your application being processed immediately and the automatic forfeiture of remaining individual grace period(s).

10. Provide information on any loans you decided not to include in your Direct Consolidation Loan (Items 18-22).

NOTE: Loans included in Items 18-22 are still used to determine the length of the repayment period under the Standard and Graduated plans for your Direct Consolidation Loan. This means that the total outstanding loan balance (on both consolidated and nonconsolidated loans) determines repayment period.

11. Next, you must select your repayment plan. If you desire to enroll in the Standard, Graduated, or Extended repayment plans, fill out and sign a Repayment Plan Request: Standard Repayment Plan/Extended Repayment Plan/Graduated Repayment Plan. If you desire to enroll in the PAYE, REPAYE, IBR, or ICR plans, fill out and sign an Income-Driven Repayment (IDR) Plan Request form.
12. Finally, you must read and sign the MPN. A sample Direct Consolidation Loan MPN can be found here.
13. Once the MPN and corresponding repayment request form have been filled out and signed, the Direct Consolidation Loan application can be submitted for processing. Processing of the application takes 30-60 days. You must continue to make any payments due on your individual loan(s) during this processing period. In the event you cannot make these payments, your loan servicer is obligated to provide you with a 60-day forbearance period during which no payments are required.
14. Once the application has been processed, your loan servicer will provide you with a payment schedule. Your first payment will be due in 60 days or less.
15. Congratulations! You now have a Direct Consolidation Loan.

CHAPTER 2

Minimizing Your Student Loan Debt

THE BEST WAY TO DEAL WITH THE BURDEN OF EDUCATIONAL DEBT IS TO MINIMIZE YOUR BORROWING. IT IS IMPORTANT TO CONSIDER YOUR FUTURE CAREER PLANS AND LIKELY INCOME WHEN DECIDING WHERE YOU WANT TO GO TO SCHOOL AND HOW YOU WILL BE ABLE TO PAY FOR IT. YOUR REPAYMENT OPTIONS, THE AVAILABILITY OF EDUCATIONAL DEBT RELIEF, AND WHAT TYPE OF DEBT YOU BORROW SHOULD FACTOR INTO YOUR DECISIONS.

Future Income and Borrowing

It is generally a good rule of thumb to cap the amount of money borrowed for law school at what you expect to make in a year. The idea behind this rule is that it would allow you to pay off your loans in ten years while only requiring you to make payments at ten percent of your income. This is not an exact science since one cannot truly know their future income until actually receiving a job. However, companies like Glassdoor and Monster can provide average estimates for jobs in various legal fields. Additionally, talking to a career services officer or to professionals who work in your desired legal position can be a good way to estimate your future salary. Practically speaking, the real purpose of the rule is so that a person wanting to work a public service job making $50,000 does not end up with $160,000 in debt.

Determining the Real Cost of a Law School Education

Law school tuition is the starting point in assessing what your debt load may be, and it can vary dramatically from school to school. However, tuition is not the only factor in how much school will cost. You should look at the net price of each law school; net price includes tuition, fees, room and board and is a more accurate projection of what your total costs will be. You may find that schools with higher tuition have a lower net price – making those schools more affordable.

Law School Transparency provides an accurate depiction of what every ABA accredited law school would cost you. Additionally, consider sitting down or having a phone call with a financial aid officer at each of the law schools you are thinking of applying to; this will provide you with a better understanding of the cost of attending each institution. Ask those officers if there are any students that would be willing to speak with you as well. If you are able to speak with a student, ask questions regarding how much is spent yearly on books, the amount in rent they pay, what is an estimated monthly cost of groceries, and weekly gas costs. Any information you can receive will help you to better understand the total cost of attending a law school.

Residency and Law School Cost

One important consideration in determining law school cost is residency requirements. Fortunately, residency only affects tuition at state-supported schools (private schools generally have the same tuition regardless of where a student lives). If you are considering a state-supported school, learn its residency rules. You may be able to establish residency before applying or after your first year, which will impact your financial calculations. This can save you a lot of money in the long run, as state supported law schools, on average, charge non-residents $13,125 more in tuition. Currently, the only state-supported law schools that do not charge nonresidents more than residents in law school tuition are Texas A&M, Penn State University - Dickinson, University of Akron, and Penn State University – University Park.

In California, Colorado, Florida, Kentucky, Missouri, New Jersey, Utah, North Carolina, Missouri, New Jersey, Utah, Ohio, and Tennessee, a student can become a resident after living in the state for 12 months. In the remaining U.S. states, residency can be accomplished, but many maintain a practice of excluding non-residents who are full-time students from becoming a resident.

Working While in Law School

Working to earn extra income while attending school can be a great help and may help minimize the amount you need to borrow. Presently, the American Bar Association allows law students to work up to 20 hours a week while enrolled in 12 hours of classes or more. Take advantage of these 20 hours; use them to gain experience in a legal environment, or to learn valuable skills.

Chances are your law school has a career site, usually via Symplicity.com or a similar platform that posts part-time jobs. You could consider becoming a Research Assistant for a law professor, or a student representative for a bar-prep company such as Kaplan or Barbri. These companies, in exchange for student outreach, often provide a semester stipend in addition to discounted or free access to their bar-prep courses.

Free Application for Federal Student Aid

You should explore the availability of financial aid at any law school to which you apply and never assume you won't qualify. To minimize your debt load, exhaust all financial aid options before turning to loans.

The first step you must take is to fill out the Free Application for Federal Student Aid (FAFSA). The FAFSA is required to secure access to federal student aid (this includes federal grants in addition to federal loans). Many states and institutions also use information from the FAFSA to determine eligibility for their different grant and loan programs. If you don't fill out the FAFSA, you will lose the opportunity to receive this assistance.

Don't make the mistake of thinking the FAFSA is not worth your time. Many students qualify for some form of aid. Even if you are not eligible for a grant or scholarship, you cannot borrow federal loans without filling it out.

How to fill out the FAFSA?

1. **KNOW THE DEADLINES:** Each year, beginning October 1, a new FAFSA is available at www.fafsa.ed.gov. The federal deadline for submission of the application is generally the end of June, but some states and institutions have earlier dates, so make sure you file by any applicable deadlines. You can find individual state deadlines here. For individual law school deadlines, contact the school's financial aid office.

> **NOTE:** For those who have filled out a FAFSA previously, you may be used to the FAFSA opening January 1. However, starting with the 2016-2017 FAFSA, the application opens on October 1. Please make note of this earlier deadline, as many schools and state grant programs have moved up their deadlines as a result of the FAFSA application opening date change.

2. Access the application by going to fafsa.ed.gov.
3. Provide either your name and FSA ID, or your full name, social security number, and date of birth.

> **NOTE:** If you do not have an FSA ID, you can acquire one at https://fsaid.ed.gov/. The FSA ID took the place of the FAFSA pin code in 2015.

4. Click the year applicable to the school year you are requesting funds. For students borrowing for fall of 2018, the application year would be 2018-19.
5. Upon selecting the appropriate application year, you will be brought to an introduction page with a series of links that provide you additional information about the FAFSA. Click next.
6. You will then access the "Student Demographic" page. This page will require you to provide basic information about yourself including name, address, state of residency, email address, and phone number. Once this information is filled out, click next.
7. You will then come to the "Student Eligibility" page. This page will require you to provide information about your citizenship, high school graduation year, the type of educational program you will be entering, whether you want to be considered for work-study, whether you were ever in foster care, how much education was completed by your parents, and whether you have prior criminal convictions that could stand in the way of you receiving federal financial aid. Click next.

> **NOTE:** Being convicted of selling or possessing drugs is a potential bar to receiving federal financial aid. More information on how drug crimes affect your ability to receive federal financial aid can be found in the FAQs section.

8. You will then be asked to provide information about your high school. Provide this information and click next.
9. You will now be asked to add up to 10 law schools where you would like your application results to be sent. It is recommended that you send this information to every law school you have sent an application. Additional schools can be added later. Choose your law schools and then click next.
10. You will then be asked to list your housing plans for each of the law schools selected. You can choose between on-campus, off-campus, or with parent. Select the applicable choice and click next.
11. You will be asked about your dependency status and will have to answer questions about your children, and whether anyone still claims you as a dependent on their taxes. Once you answer these questions, you will be classified as either independent or dependent. If you are considered dependent, you will be required to answer questions about your parents or legal guardians. If you are considered independent, you will be able to skip the parent/legal guardian information. In either case, click next.
12. Next, you will be asked to provide information from your most recent tax return. This information can be auto-filled by clicking the "Link to IRS" button at the bottom of the page. You will be asked to provide your FSA ID and password. Then, you will be transferred to the IRS website, asked security questions, and will then be given an option to transfer your most recent tax information back to the FAFSA.

> **NOTE:** You will not be using your prior year tax return but the tax return from two years prior.

13. Upon returning to the FAFSA website, double-check the transferred information and fill in any missing information. Click next.
14. You will then be able to electronically sign your FAFSA. Upon doing that, click "submit my FAFSA now."
15. You will then be taken to a confirmation page. This page will also be sent to the email you provided ion the application. At the bottom of the page, you will be provided with an "Estimated Expected Family Contribution

(EFC)." This number is a rough estimate of how much the federal government estimates you can provide out-of-pocket toward your law school education.

16. You're done! Lean back and relax. Law schools generally receive the results of your FAFSA information within 10-14 business days. Within 3-5 business days you will receive an email stating that your FAFSA has been processed. This email will contain a link where you may access your Student Aid Report (SAR), which is the official information used by law schools to calculate your financial aid package.

Notes:

- Grants – which should be pursued because they do not need to be repaid – are limited and may be distributed early in the year. Therefore, you should submit your FAFSA as soon as possible.
- The FAFSA must be submitted every year that you seek to receive federal financial aid.
- This process may seem complicated when laid out in multiple steps, however the entire process (minus waiting for the actual application results to return) takes only about 15-20 minutes to complete. There are currently discussions in Congress on simplifying this process in the future. However, for the current financial year, the steps outlined above are required.
- The Department of Education has a FAFSA guide that provides guidance for each individual FAFSA question. You can access the guide here.

Scholarships and Grants

As noted above, the FAFSA is a great first step for finding scholarships and grants. However, the application will only determine whether you are eligible for funding from the federal government. It is also a good idea to research private sources of funding to determine what additional funds may be available.

A good place to start is the financial aid offices of the law schools to which you are applying. If you decide to call schools to discuss law school costs, (as recommended above), this would be a good time to inquire about scholarship opportunities as well. Make sure to get information about the requirements for academic performance, diversity, or financial need, as well as any and all deadlines. Write this information down and keep a separate list for each school.

In evaluating any law school's scholarship program, consider the following:

- The total amount of financial aid available;
- How competitive you will be for the number of slots available;
- Any obligations you will have in exchange for the funds.

Outside of scholarships offered by law schools, many independent, private scholarships exist with organizations like Discover Law, the American Bar Association, Scholarships.com, FastWeb, MALDEF, Sallie Mae, and The Point Foundation—each of which offer their own scholarships programs and provide information about existing scholarships.

Additionally, the U.S. Department of Labor manages a scholarship database called Career One Stop. This program maintains listings for more than 700 different law school scholarships at any one time.

Federal Work-Study

Your FAFSA will determine if you are eligible for part-time Federal Work-Study. You will either work directly for your law school or outside the university, doing something in the public interest. Public interest work is "work performed for the welfare of the nation or community, rather than...for a particular interest or group." This means that you cannot work in a position that results in displacing existing employees, involved in religious worship or sectarian instruction, or involving politics. However, you can be employed with a state legislature if the work performed is nonpartisan.

The law school will pay you at least once a month and you must earn at least minimum wage. However, you can also permit the school to allocate your work study compensation to pay expenses relating to attending law school, such as books or fees. Currently, work study recipients receive between $1,500 and $1,800 per semester.

Consider Relief That Can Help with Repayment

If you must borrow student loans, there are programs that can provide significant relief to ease the burden of repaying these loans. These include income-driven repayment plans and forgiveness for federal loans, as well as loan repayment assistance programs that help provide funds to make payments on your loans. Read Chapters 3, 4, and 5 to learn more. Also, review the differences between private and federal loans in Chapter 1 to make sure you are borrowing eligible loans. To learn what you should look for in these programs and how they can significantly reduce your educational debt burden, register for a free informational webinar hosted by Equal Justice Works.

Additional Resources

- Law School Admission Council's Law School Financial Aid Guide: A general overview on financing law school.
- The Department of Education's Federal Student Aid Center
- The Department of Education's College Affordability and Transparency Center
- Studentloans.gov: Your source for information from the U.S. Department of Education about how to manage your student loans. You can complete counseling (Entrance, Financial Awareness and Exit), manage repayment, and more.
- The Consumer Financial Protection Bureau's (CFPB) Student Debt Repayment Assistant
- The Washington School of Law at American University maintains a great database of outside scholarships that can be found here.

CHAPTER 3

Income-Driven Repayment Plans

GRADUATING FROM LAW SCHOOL IS BITTERSWEET. A SENSE OF ACCOMPLISHMENT AND THE CHANCE FOR NEW EXPERIENCES CAN BE SWEET, BUT UPCOMING LOAN REPAYMENT MAY PRESENT A BITTER COUNTERPART. FORTUNATELY, INCOME-DRIVEN REPAYMENT (IDR) PLANS CAN RELIEVE THE STRESS OF COPING WITH LAW SCHOOL DEBT BY ALLOWING YOU TO REPAY LOANS WITH MONTHLY PAYMENTS BASED ON A PERCENTAGE OF YOUR INCOME.

THERE ARE TWO BROAD CATEGORIES OF REPAYMENT PLANS: BALANCE BASED PLANS AND IDR PLANS. THIS E-BOOK WILL DISCUSS BALANCE BASED PLANS BRIEFLY FOR YOUR REFERENCE, BUT THE MAJORITY OF THIS CHAPTER WILL FOCUS ON IDR PLANS.

Balance Based Plans

BALANCE BASED PLANS are plans where payments are not based on income; they are calculated at amounts guaranteed to pay off the entire loan within a fixed period of time. There is no loan forgiveness under balanced based plans. These payment plans apply to both Direct and FFEL loans, including consolidation loans.

1. **Standard:** Under the standard plan, you would make fixed payments over the course of 10 or more years. The payments would be a minimum of $50, regardless of loan balance. Payments will always be enough to cover accrued interest.
2. **Graduated:** Under the graduated plan, payments start out low and increase every two years. Like the Standard plan, payments are made for ten years and they will always be enough to cover accrued interest. Payments may triple with every increase, so borrowers considering this plan should keep in mind that the ability to afford the initial payment amounts may not indicate the ability to afford subsequent payments.

NOTE: The Standard Repayment Plan and Graduated Repayment Plan term is ten years unless you have consolidation loans. In this case, the term length extends up to thirty years depending on how much you possess in loan balance at the time you apply for consolidation. For more information, visit the section on loan consolidation.

3. **Extended:** The extended plan is an option for borrowers who had no federal loans as of October 7, 1998 and who have a loan balance of more than $30,000. If you qualify, you can repay your loans with either fixed or graduated payments with a repayment term of up to 25 years.

Income-Driven Repayment (IDR) Plans

Overview

With IDR plans, your monthly payments are based on a percentage of your discretionary income. The more income a borrower has, the higher the payments will be; less income brings lower payments. The unpaid loan balance is cancelled after payments are made for a period of time.

THERE ARE FOUR TYPES OF IDR PLANS:

Revised Pay As You Earn REPAYE Plan	Pay As You Earn PAYE Plan	Income Based Repayment IBR Plan	Income Contingent Repayment ICR Plan

Before delving into the details of each plan, it is useful to discuss a few concepts and terms that are important to each plan.

Discretionary Income

All IDR plans calculate monthly payments at a percentage of a borrower's discretionary income. So what is discretionary income?

The federal student loan definition of **discretionary income** is:

> **"For Income-Based Repayment, Pay As You Earn, Revised Pay As You Earn,** discretionary income is the difference between your adjusted gross income (as determined by your most recent tax return or alternative documentation) and 150 percent of the poverty guideline for your household size and state of residence. **For Income-Contingent Repayment,** discretionary income is the difference between your adjusted gross income (as determined by your most recent return or alternative documentation) and 100 percent of the poverty guideline for your household size and state of residence."

POVERTY GUIDELINE: For 2016, the federal poverty guidelines were:

Household Size	100%	133%	150%
1	$11,880	$15,800	$17,820
2	$16,020	$21,307	$24,030
3	$20,160	$26,813	$30,240
4	$24,300	$32,319	$36,450
5	$28,440	$37,825	$42,660
6	$32,580	$43,331	$48,870
7	$36,730	$48,851	$55,095
8	$40,890	$54,384	$61,335

Source: [Federal Student Aid Glossary]

HOUSEHOLD SIZE: Be sure that you understand how to calculate your household size. Your household size includes you, your spouse, and your children, provided that the children will receive more than half their support from you, regardless of whether you claim them for tax purposes. This includes unborn children who will be born during the year for which you certify your household size. Household size also includes other people if they live with you and receive more than half their support from you now and will continue to receive your support for the year that you certify your household size. Support includes money, gifts, loans, housing, food, clothes, car, medical and dental care, and payment of college costs.

ICR Loan Cancellation Provisions

All IDR plans provide for taxable loan cancellation after you have made payments while enrolled for either twenty or twenty-five years. Once the applicable payments have been made, ALL unpaid loan principal and interest is cancelled. The full amount cancelled is then reported to the IRS via a 1099-C, commonly called the "cancelled debt form." This may result in a tax bill during the tax year when the Department of Education files the 1099-C on your behalf.

You could end up paying off the loan in full prior to receiving cancellation. The Department of Education notes "whether you will have a balance left to be forgiven at the end of your repayment period depends on a number of factors, such as how quickly your income rises and how large your income is relative to your debt. Because of such factors, you may fully repay your loan before the end of your repayment period."

Income Driven Repayment (IDR) Plan Request Form

If there is one form you should be familiar with when considering repaying your loans under IDR plans, it is the Income Driven Repayment (IDR) Plan Request Form. A sample version of this form can be found here.

NOTE: When selecting an IDR plan in "Section 2: Repayment Plan or Recertification Request," you can simply choose the "I want the income-driven repayment plan with the lowest monthly payment" option. However, if you select this option, your loan servicer may place you in the wrong payment plan for your current situation.

This most often occurs with the REPAYE and PAYE plans. Both plans require that you pay 10 percent of your discretionary income. However, REPAYE possesses no payment cap like PAYE and always counts your spouse's income even if you file your taxes separately. So over time you may pay more, even though the payment amounts are the same today. In addition, PAYE provides cancellation after 20 years for all borrowers, while REPAYE requires 25 years for cancellation for borrowers with graduate and professional loans. Keep in mind that if you switch into a different repayment plan later all your accrued interest capitalizes. It is advisable to select what you project will be your best long-term option.

The Income Driven Repayment (IDR) Plan Request Form is used to:

- Enroll in an IDR plan for the first time.
- Submit information required for the annual recertification of income.
- Have your monthly payment amounts under your IDR plan recalculated, (based on a change in financial circumstances or household size) between annual re-certifications.
- Change IDR plans.

The Income Driven Repayment (IDR) Plan Request Form can also be filled out electronically by:

1. Going to Federal Student Aid website
2. Logging in with your FSA ID and password.
3. Clicking the arrow for "Applying for an Income Driven Repayment Plan" and following the instructions. This form is then sent directly to your loan servicer for processing.

IDR

INCOME-DRIVEN REPAYMENT (IDR) PLAN REQUEST

For the Revised Pay As You Earn (REPAYE), Pay As You Earn (PAYE), Income-Based Repayment (IBR), and Income-Contingent Repayment (ICR) plans under the William D. Ford Federal Direct Loan (Direct Loan) Program and Federal Family Education Loan (FFEL) Programs

OMB No. 1845-0102
Form Approved
Exp. Date 10/31/2018

WARNING: Any person who knowingly makes a false statement or misrepresentation on this form or on any accompanying document is subject to penalties that may include fines, imprisonment, or both, under the U.S. Criminal Code and 20 U.S.C. 1097.

SECTION 1: BORROWER INFORMATION

Please enter or correct the following information.

☐ **Check this box if any of your information has changed.**

SSN ______

Name ______

Address ______

City ______ State ______ Zip Code ______

Telephone - Primary ______

Telephone - Alternate ______

Email (Optional) ______

SECTION 2: REPAYMENT PLAN OR RECERTIFICATION REQUEST

It's faster and easier to complete this form online at StudentLoans.gov. You can learn more at StudentAid.gov/IDR and by reading Sections 9 and 10. It's simple to get repayment estimates at StudentAid.gov/repayment-estimator. If you need help with this form, contact your loan holder or servicer for free assistance. You can find out who your loan holder or servicer is at StudentAid.gov/login. You may have to pay income tax on any loan amount forgiven under an income-driven plan.

1. Select the reason you are submitting this form (Check only one):

☐ I want to enter an income-driven plan - Continue to Item 2.

☐ I am submitting documentation for the annual recertification of my income-driven payment - Skip to Item 5.

☐ I am submitting documentation early to have my income-driven payment recalculated immediately - Skip to Item 5.

☐ I want to change to a different income-driven plan - Continue to Item 2.

2. Choose a plan and then continue to Item 3.

☐ (Recommended) I want the income-driven repayment plan with the lowest monthly payment.

☐ REPAYE ☐ IBR

☐ PAYE ☐ ICR

3. Do you have multiple loan holders or servicers?

☐ Yes - Submit a request to each holder or servicer. Continue to Item 4.

☐ No - Continue to item 4.

4. Are you currently in deferment or forbearance?

After answering, continue to Item 5.

☐ No.

☐ Yes, but I want to start making payments under my plan immediately.

☐ Yes, and I do not want to start repaying my loans until the deferment or forbearance ends.

Note: If you have FFEL Program loans, they are only eligible for IBR. However, you can consolidate your loans at StudentLoans.gov to access more beneficial income-driven repayment plans.

SECTION 3: FAMILY SIZE INFORMATION

5. How many children, including unborn children, are in your family and receive more than half of their support from you? ______

6. How many other people, excluding your spouse and children, live with you and receive more than half of their support from you? ______

Selecting an Income Driven Repayment (IDR) Plan for the First Time

When you enter repayment for the first time and decide an IDR plan is the way to go, you must formally enroll. Enrollment happens in a few easy steps.

1. Get an FSA ID and password. You can do this at https://fsaid.ed.gov/
2. Determine what types of federal loans you have. You can do this via the National Student Loan Data System.
3. Determine what IDR plans you qualify for. You can find out how to qualify for various repayment plans in the individual IDR sections below.
4. Decide on an IDR plan.
5. Fill out an Income-Driven Repayment (IDR) Plan Request Form. If possible, this form should be filled out within the last two months of your grace period, in order to provide time for processing. However, if you do not have a grace period, your loan servicer can also grant a forbearance for up to 60 days, in order to give the loan servicer time to process your request form.

   The form can be filled out on paper and mailed to your loan servicer, or filled out online at the Federal Student Aid website.
6. Provide your loan servicer with proof of your income. Income includes income from any taxable source including employment, unemployment income, dividend income, interest income, and tips, but does not include income from untaxable sources such as Supplemental Security Income, child support, food stamps, or other state of federal public assistance.

   The most common way to verify income is by providing your loan servicer with your most recent tax return. In the event you fill out the Income-Driven Repayment (IDR) Plan Request Form online, you can simply provide verification of your income information via the IRS Data Retrieval Tool. This tool electronically fills in your tax information from your most recently filed return in lieu of you having to provide your loan servicer with an official copy of your return.

NOTE: If you cannot provide your loan servicer with a tax return, or if your income has changed since you filed your last tax return, you can provide alternative documentation of your income. Alternative documentation can include a pay stub, letter from an employer that lists your gross pay, or a signed statement explaining each source of your income that lists the name and address of each source of income.

7. After your request form has been processed, your loan servicer will determine your eligibility for your requested plan. If approved, the loan servicer will calculate your monthly payment and create a 12-month payment schedule. You can then retrieve your payment schedule from your loan servicer (typically by logging into your account with the loan servicer).
8. After completing steps 1-7, you are officially enrolled in an IDR plan. Make your payments on time!

Annual Recertification

Federal law requires you to provide your loan servicer with an annual recertification of your income. That is the reason your loan servicer only creates a 12-month payment schedule when you enroll in an IDR plan.

This recertification requires filling out a new Income-Driven Repayment (IDR) Plan Request form and sending it to your loan servicer. When filling out the form, select the option that states *"I am submitting documentation for the annual certification of my income-driven repayment"* where the form asks you to "select the reason you are submitting this form." Failure to choose the correct option can result in your request form being processed incorrectly, and you being placed in a different plan with potential higher payments. You must accompany this form with your most recent tax return (or alternative documentation). As noted above, the request form can be filled out on paper or online at the Federal Student Aid website. If filled out online, you may also use the IRS Data Retrieval tool to provide the necessary income information for the recertification.

NOTE: Failure to provide your loan service with an annual recertification of income can have severe consequences.

PAYE: The borrower continues to repay their loans under PAYE, however monthly payment amounts increase to what they would have been had you entered into the Standard Repayment Plan, (ten years) instead of PAYE initially. Payments remain at this heightened amount until you recertify your income. Accrued interest also capitalizes.

ICR: The borrower continues to repay their loans under ICR, however monthly payment amounts increase to what they would have been had you entered into the Standard Repayment Plan, (ten years) instead of ICR initially. Payments remain at this heightened amount until you recertify your income. Accrued interest also capitalizes.

REPAYE: The borrower is removed from REPAYE and placed in the REPAYE Alternative Plan. This plan calculates the monthly payment amount at a figure necessary to repay the outstanding loan balance in the shorter of ten years or the period remaining under the original REPAYE plan. The borrower remains in this alternative repayment plan until income is recertified. Accrued interest also capitalizes.

IBR: The borrower continues to repay their loans under IBR, however monthly payment amounts increase to what they would have been had you entered into the Standard Repayment Plan (10 years) instead of IBR initially. Payments remain at this heightened amount until you recertify your income. Accrued interest also capitalizes.

Changes in Financial Situation/Household Size

You are only required to recertify your income annually. However, in the event your financial situation or household size changes between annual certifications, you can request that your loan servicer recalculate your payments. You would need to provide the loan servicer with a new Income Driven Repayment (IDR) Plan Request form as well as evidence documenting your change in financial circumstances.

Documentation must be included for all current taxable sources of income. This can include pay stubs, a letter from an employer, or evidence documenting loss of employment. Documentation of a change in household size is not necessary, but it must be marked on the request form. Recalculated payment amounts remain in place until your next required annual certification.

When filling out the request form, select the option that states “I am already in an income-driven repayment plan and am submitting documentation early because I want my loan holder to recalculate my payment immediately” as the reason you are filling out the form. Failure to select the correct reason could result in undesired changes to your monthly payment amount or the repayment plan you are enrolled within.

Repayment Estimator

The repayment estimator, provided by the Department of Education, allows borrowers to calculate their monthly loan payments for federal student loans under any of the balance based or income-driven repayment plans. To use the repayment estimator, simply input your adjusted gross income (AGI), family size and the amount of loans where indicated and the calculator does the rest. The calculator even allows you to log in with your FSA ID and password and have your loan amounts populated automatically to ensure the accuracy of the monthly payment amounts.

A few tips for using the repayment estimator:

- When asked about income, use your adjusted gross income from your latest filed tax return; **do not** use your before-tax salary.
- When asked about family size, remember to include yourself, your spouse, any dependent children (children receiving more than 50 percent of support from you), and anyone else who lives with you and receives more than half their support from you. Support includes money, gifts, loans, housing, food, clothes, car, medical and dental care, and payment of college costs.
- If the calculator does not provide you with a monthly payment amount for the IBR and/or PAYE plans, this means you do not possess the required partial financial hardship necessary to enter into those plans.
- You can use the calculator without logging in with your FSA ID and password by simply estimating the amount of your federal loans. However, if you do not log in, the repayment estimator will not tell you whether you qualify as a "new borrower" under the IBR or PAYE plans. So even if the calculator provides you with a monthly amount with the IBR (new borrower) and PAYE plans, this simply means you have the required partial financial hardship; it does not indicate whether your loans were disbursed at the time necessary to qualify you to enter into those plans.

Income-Based Repayment (IBR) Plan

Established by the College Cost Reduction and Access Act of 2007, the Income-Based Repayment (IBR) plan can reduce your monthly payments and help make repaying your educational debt manageable. Borrowers are eligible for two forms of repayment terms under IBR depending on if they are a "new borrower" or not. A new borrower is a borrower who had no federal loans under the FFEL or Direct Loan program as of July 1, 2014. You can qualify as a new borrower (1) if you didn't take out any loans before July 1, 2014 or (2) you took out loans before July 1, 2014 but completely repaid them before taking out a new loan on or after that date.

If you are not a new borrower, IBR will cap monthly payments at 15 percent of your discretionary income, and cancel the unpaid balance of your loans after twenty-five years. If you are a new borrower, IBR will cap monthly payments at ten percent of your discretionary income and cancel the unpaid balance of your loans after twenty years.

Qualifying for the Income-Based Repayment Plan

To qualify for the IBR plan, you must have a (1) **partial financial hardship** and (2) **eligible loans.**

You have a **partial financial hardship** if the annual amount due on all of your eligible loans under a Standard Repayment Plan with a 10-year repayment period would exceed 10 percent of your discretionary income if you are a new borrower, and 15 percent if you are not a new borrower. Think of partial financial hardship in these terms: If your monthly loan payment under IBR will be lower than your monthly payment under the Standard Repayment Plan with a 10-year repayment period, then you have a partial financial hardship.

Eligible IBR loans include:

- **Loans borrowed under the FFEL or Direct Loan Program,** except loans borrowed by a parent or guardian to fund a child's education, Direct Consolidation loans used to repay these loans, and loans in a default status.

- **Federal Perkins Loans are only eligible when part of a FFEL or Federal Direct Consolidation Loan.** However, Perkins Loans include their own repayment and cancellation provisions. Before consolidating a Perkins Loan, you should consult with the school from which you obtained the loan to find out whether you can benefit from these provisions. They will be lost if Perkins Loans are consolidated.

NOTE: Loans from state or private lenders are never eligible for federal income-driven repayment plans or Public Service Loan Forgiveness. Avoid borrowing private loans if you want to preserve the ability to enroll all of your loans in IBR.

Paying under IBR

As long as you have a partial financial hardship and remain in IBR, the amount you pay monthly will be capped at either 10 percent of your discretionary income (for new borrowers) or 15 percent (for non-new borrowers).

Because your monthly payment amount is based on your income and household size, rather than the amount you owe, your monthly payment increases as your income increases. If your income decreases, your monthly payment amount will also decrease.

However, if your income increases to a point where you no longer have a partial financial hardship, your payment amount will no longer be based on your income. Instead, it will be set at what you would have paid if you had entered a standard 10-year repayment plan when you first entered IBR. In this case, switching to either the graduated or extended repayment plans would lower your monthly payments; however, it would also remove your eligibility for loan forgiveness and potentially result in accrued interest capitalizing.

In addition to lowering your monthly payments based on income, if you enroll in IBR and still are repaying your loans after twenty or twenty-five years (excluding time spent in forbearance or deferment other than an economic hardship deferment) any principal and interest remaining on your loans will be cancelled.

A Look at How IBR Helps Dara Defender

IBR has two versions. One for "new borrowers" and one for everyone else. As discussed above, a "new borrower" is a person without any unpaid loans from the federal Direct or FFEL programs as of July 1, 2014. In the following example, we are assuming that Dara is not a new borrower.

Dara has an adjusted gross income of $35,000. She has $75,000 in Direct PLUS Loans. Dara is single and thus has a household size of 1. Could Dara benefit from IBR?

First, let's see if Dara is eligible for IBR.

1. Does Dara have eligible loans? Yes. Dara has $75,000 in Direct PLUS Loans.
2. Does Dara have a partial financial hardship? Yes. Dara has a partial financial hardship as long as her payments under the standard 10-year repayment plan exceed 15 percent of her discretionary income. Using the repayment estimator, Dara determined that 15 percent of her discretionary income would be $215.00 while her Standard Repayment Plan amount would be $844. Since $215.00 is lower than $844, Dara has a partial financial hardship and may repay her loans under IBR.

REMINDER: If the repayment estimator does not provide a figure for the IBR monthly payment amount, this means you do not have the required partial financial hardship necessary to enter into IBR.

Since Dara is eligible to participate in IBR, let's explore how much money Dara could save using this plan compared to other repayment options. To do so, we will use the repayment estimator provided by the Department of Education.

Repayment Plan	First Monthly Payment	Last Monthly Payment	Total Amount Paid	Projected Loan Forgiveness	Repayment Period
Standard	$844	$844	$101,280	$0	120 months
Graduated	$484	$1,453	$108,394	$0	120 months
Extended Fixed	$497	$497	$149,122	$0	300 months
Extended Graduated	$394	$733	$161,985	$0	300 months
Revised Pay As You Earn (REPAYE)	$143	$681	$107,639	$72,055	300 months
Pay As You Earn (PAYE)	$143	$507	$71,171	$98,329	240 months
Income-based Repayment	$215	$844	$156,953	$25,508	300 months
IBR for New Borrowers	$143	$507	$71,171	$98,329	240 months
Income-Contingent Repayment (ICR)	$385	$745	$137,149	$0	226 months

The benefits and disadvantages for Dara in using IBR include:

- Her payments start out as low as $215. Under the Standard 10-Year, Graduated or Extended repayments plans, payments start out between $394 and $844 per month
- She can get over $25,000 in unpaid loan and interest cancelled after making payments for 25 years
- Dara will pay more over time ($156,893) under IBR than she would pay under the Standard 10-year ($101,280) repayment plan.
- She will also have a much longer repayment period—25 years under IBR, compared to ten years under the Standard 10-year repayment plan.

Pay as You Earn (PAYE) Plan

PAYE was first proposed in October of 2011, and officially unveiled at Colorado University by then President Obama, and then First Lady Michelle Obama. At the unveiling, President Obama noted that his inspiration for creating the repayment plan was his own personal experience paying off $120,000 in debt. The plan became effective on December 21, 2012.

PAYE requires you to pay 10 percent of your discretionary income for 20 years. After 20 years, all outstanding loan balance is cancelled.

Qualifying for PAYE

There are three requirements that borrowers must meet to be eligible for the repayment provisions offered by PAYE: (1) **They must be considered a new borrower under the plan,** (2) **They must have a "partial financial hardship,"** and (3) they **must have eligible loans.**

REQUIREMENT #1: The borrower must be considered a "new borrower" under this plan. Only borrowers who take out loans after a certain date – known as "new borrowers" – are eligible for the plan. This requirement has two prongs:

- First, you must borrow your first federal loan on or after Oct. 1, 2007. If you had federal loans from before Oct. 1, 2007, you still can meet this test if you completely repaid those loans **before** taking out a new loan on or after Oct. 1, 2007.
- Second, you must either receive a new loan, receive a disbursement on an existing loan, or consolidate your loans on or after October 1, 2011.

As a result, many borrowers with loans from 2007 or earlier, as well as students who graduated in 2011 or earlier, and borrowers already in repayment will not be able to benefit from these changes. However, if you do not meet these requirements, you still may be eligible for the **REPAYE**, **IBR** or **ICR** plans.

REQUIREMENT #2: Eligible borrowers must also have a **partial financial hardship** in order to enroll in the plan. You meet this threshold if the annual amount due on your outstanding Federal Direct and FFEL Loans under a Standard 10-year Repayment Plan would exceed 10 percent of your discretionary income.

NOTE: The inability to enter into PAYE now due to a lack of a partial financial hardship, does not mean you can never repay your loans under this plan. Any decrease in income or increase in household size may result in you possessing a partial financial hardship in the future.

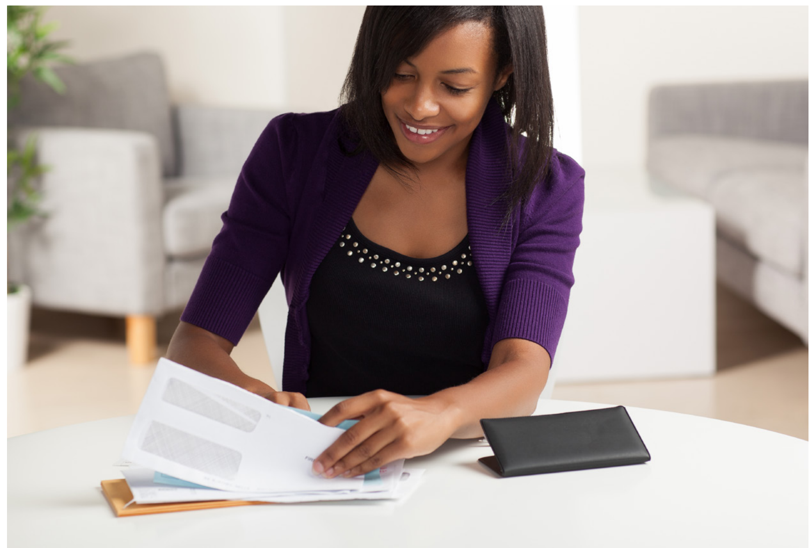
REQUIREMENT #3: TPAYE can only be used to repay eligible loans. **Eligible loans include:**

Direct Subsidized	Direct Unsubsidized	Direct Grad PLUS	Direct Consolidation	FFEL Loans, if converted into a Direct Consolidation

Loans that are not eligible include the following:

- Unlike IBR, FFEL Loans are not eligible for repayment in PAYE. Any FFEL Loans must first be consolidated into a Direct Consolidation loan before you may enroll in PAYE.
- Parent PLUS Loans are not eligible for repayment in PAYE.
- Federal Perkins Loans are only eligible for repayment in PAYE when they are part of a Federal Direct Consolidation Loan. Remember to consult with the school from which you obtained your Perkins Loan before consolidating it in order to find out whether you can benefit from Perkins cancellation. These provisions will be lost if Perkins Loans are consolidated.
- Federal loans in default cannot be repaid under PAYE.

Paying under PAYE



As long as you maintain a partial financial hardship, you will never pay more than 10 percent of your discretionary income toward your student loan payments under PAYE.

Because your monthly payment amount is based on your income and household size, rather than the amount you owe, your monthly payment increases as your income increases. If your income decreases, your monthly payment amount will also decrease.

In addition to lowering your monthly payments based on income, if you enroll in PAYE and are still repaying your loans after 20 years (excluding time spent in forbearance or deferment other than an economic hardship deferment) any principal and interest remaining on your loans will be cancelled.

However, if your income increases to a point where you no longer have a partial financial hardship, your payment amount will no longer be based on your income. Instead, it will be set at the amount you would have paid if you had entered a standard ten-year repayment plan when you first entered PAYE. In this case, switching to either the graduated or extended repayment plans might lower your monthly payments, but would also remove your eligibility for Public Service Loan Forgiveness, removing the possibility of loan cancellation in 20 years and potentially resulting in accrued interest capitalizing.

A Look at How PAYE Helps Dara Defender

Dara Defender graduated in 2016 with $65,000 in eligible unsubsidized federal loans. She took out her first federal loans in 2013. She has a disabled sister and Dara provides 80 percent of her support. Dara is single and has two children. This means Dara has a household size of 4. Her loans have a 6.8 percent interest rate. Dara took a job earning an adjusted gross income of $60,000.

Does Dara qualify to repay her loans under PAYE?

Remember that Dara must meet three requirements to enroll in PAYE: (1) have a partial financial hardship, (2) be a new borrower, (3) have eligible loans.

1. **Does Dara have a partial financial hardship?**

   Yes. Under the Standard 10-year repayment plan, Dara would have monthly payments of $748 but would only have payments under PAYE of $196. Because Dara's payments under PAYE would be lower than her payments under the Standard 10-year plan, Dara has a partial financial hardship.

   Reminder: You can easily use the repayment estimator to determine whether you have a partial financial hardship. As noted above, if you log in and the repayment estimator does not provide a monthly payment for PAYE plan (using your provided information), then you do not possess the required financial hardship and cannot repay your loans under PAYE.

2. **Is Dara a new borrower?**

   Yes. Dara had no unpaid federal loans as of October 1, 2007 AND she took out a Direct Loan after October 1, 2011. Because she meets both requirements, Dara is a new borrower for PAYE plan purposes.

3. **Does Dara have eligible loans?**

   Yes. Because Dara took out her federal loans after 2011, Dara can only have Direct Loans. FFEL loans (the other type of federal loan that cannot be repaid under PAYE) were no longer made after June 30, 2010.

Dara meets all three requirements for PAYE and can repay her loans under this plan.

How will Dara benefit from PAYE?

During her first year in PAYE, Dara's monthly payments will be $196 (almost $100 less than IBR for a non-new borrower). As noted above, Dara would pay more than three times as much – around $748 per month – under the Standard ten-year repayment plan.

Let's assume Dara receives annual salary increases of five percent and her monthly payments gradually rise. She remains in the plan for 20 years and in year 20, Dara pays about $748 per month.

At the end of year 20, Dara has **paid about $106,000** and her remaining balance of principal and interest (about $43,807) is cancelled.

Under a standard 10-year plan, Dara would have paid **about $89,763** and would have had to pay about $748 per month, every month. Under an extended plan, Dara would have paid **about $135,344** (twice the amount she borrowed) over 25 years and would have had to pay about $451 per month regardless of income. Under a graduated plan, Dara would initially pay about $431 per month, but these payments would rise gradually regardless of her income and she would pay **about $96,590** over ten years.

Revised Pay as You Earn (REPAYE) Plan

Established by the Department of Education on October 27, 2015, the Revised Pay as You Earn (REPAYE) plan is a new income-driven repayment plan. The Department of Education made the plan available to student loan borrowers on December 17, 2015.

REPAYE caps your monthly payment amount at 10 percent of your monthly income. If you are enrolled in REPAYE, any outstanding balance is cancelled after 20 years of qualifying repayment if all loans were received for undergraduate study. For those with any graduate or professional study loans, any outstanding balance will be cancelled only after 25 years of qualifying repayment.

Qualifying for REPAYE

The only qualification for entering into REPAYE is having eligible loans. There is no requirement for when the loans were taken out and no requirement that borrowers have a partial financial hardship.

Eligible loans include:

Direct Subsidized	Direct Unsubsidized	Direct Grad PLUS	Direct Consolidation	FFEL Loans, if converted into a Direct Consolidation

Loans that are not eligible include:

- Loans from state or private lenders are never eligible for repayment under the REPAYE (or any IDR) plan. Avoid borrowing private loans if you want to preserve the ability to enroll all your loans in REPAYE.
- Parent PLUS Loans are not eligible for repayment under REPAYE. Federal consolidation loans that repaid Parent PLUS Loans are also ineligible.
- Federal Perkins Loans are only eligible when part of a Federal Direct Consolidation Loan. However, Perkins Loans include their own cancellation provisions. Before consolidating a Perkins Loan, you should consult with the school from which you obtained the loan to find out whether you can benefit from cancellation. These provisions will be lost if Perkins Loans are consolidated.
- Federal loans in default cannot be repaid under REPAYE.

Paying under REPAYE

Under REPAYE, payments are always 10 percent of your discretionary income, regardless of payment amount. This differs from the PAYE and IBR plans, where payments are capped at the amount you would have paid in a 10-year Standard Repayment Plan at the time you entered those plans. Borrowers with higher incomes may want to consult the repayment estimator to ensure that remaining in REPAYE would not result in a payment amount above what one may otherwise be able to pay under any of the other repayment plans.

Like the other IDR plans, REPAYE also offers loan cancellation provisions. If you only have eligible loans from undergraduate studies, all unpaid loan principal and interest is forgiven after payments have been made for twenty years. However, if you have eligible loans for graduate or professional study, the cancellation period is extended from twenty years to twenty-five years for all your loans.

REMINDER: The amount cancelled is reported to the IRS via a 1099-c, or "cancelled debt" form. This could result in your assuming a tax liability in the year the cancellation occurs.

How Judy Justice Could Benefit from REPAYE

Judy Justice owes $165,000 in Direct Plus loans. Her loans have a 7.9 percent interest rate. She has a spouse, Tommy Tort, and two children, Susie and Jack. This means Judy has a family size of four.

Judy makes $75,000 a year, while her husband Jack remains at home with the children. Judy and Jack reside in Alabama.

Using the repayment estimator, Judy gains the following benefits from REPAYE:

- Under REPAYE, Judy pays $318 a month. Assuming a five percent average increase in income annually, Judy can expect to pay $233,755 over the life of her loan. However, after making payments for 25 years, Judy can have $170,476 in loans cancelled.
- Judy would pay $1,812 under the Standard Repayment Plan (10-year), $1,058 under the Graduated Plan (with payments eventually rising to over $3,000), and $988-$1,543 under the Extended Repayment Plan (depending on whether or not Judy used the fixed or graduated payment option). Overall, Judy saves between $700 and $1,500 on her monthly payments by using REPAYE versus one of the balance based plans.
- While Judy will pay longer under REPAYE than she would under the Standard Repayment Plan, she will pay a little more over the life of the loan while having much lower payments. Under the Standard Repayment Plan, Judy pays $217,000 over the life of the loan, while she pays $233,000 over the life of the loan under REPAYE. The gains become even more prominent when you compare the total cost of the loan under REPAYE to the total cost of the loan under the Extended or Graduated Payment plans. Under the Extended Repayment Plan, Judy will pay between $345,000 and $370,000 over the life of loan while making payments just as long as she has to make them under REPAYE. Similarly under the Graduated Plan, Judy pays $236,000 over the life of the loan. This is only $3,000 more than Judy pays over the life of the loan under REPAYE. However, Judy would have to pay the $236,000 under the Graduated Repayment Plan in 120 months versus 300 months under REPAYE.
- However, it is important to compare REPAYE to PAYE. Her initial payments start at the same $318 a month. But because REPAYE is not capped at the amount she would have paid in a 10-year Standard Repayment Plan, her estimated payments grow to $1,473 in REPAYE versus $1,098 in PAYE. Also, because she has PLUS Loans, Judy would receive cancellation five years later in REPAYE. As a result, she would pay far less overall in PAYE ($154,842) versus REPAYE ($233,755)

Income-Contingent Repayment (ICR) Plan

ICR is the oldest IDR plan and payments under this plan tend to be higher than in other income-driven repayment plans. However, this plan is helpful for some borrowers. Most significantly, this is the only IDR plan that is accessible to borrowers with Parent PLUS loans and is their only path to earning Public Service Loan Forgiveness. In order to enroll in ICR and be eligible for Public Service Loan Forgiveness, borrowers must first consolidate their Parent PLUS loans into a Federal Direct Consolidation Loan. But, as noted earlier, borrowers may want to avoid combining Parent PLUS and non-Parent PLUS loans in the same consolidation loan.

Qualifying for ICR

Like REPAYE (and unlike IBR and PAYE), ICR requires no partial financial hardship. This means anyone can enroll in ICR as long as they have eligible loans.

Eligible loans for ICR include:

Direct Subsidized	Direct Unsubsidized	Direct GRAD Plus	Direct Consolidation (Including consolidation loans taken out after July 1, 2006 that were used to pay off Parent PLUS Loans)

Loans That Cannot Be Repaid Under ICR

- Loans from state or private lenders are not eligible for repayment under ICR. Avoid borrowing private loans if you want to preserve the ability to enroll your loans in ICR
- FFEL Loans are not eligible for repayment in ICR. Any FFEL Loans must first be consolidated into a Direct Consolidation Loan before you may enroll in ICR.
- Parent PLUS Loans are not eligible for repayment in ICR.However, unlike IBR, Direct Consolidation Loans taken out after July 1, 2006 that repaid Parent PLUS Loans are eligible for repayment in ICR.
- Federal Perkins Loans are only eligible to be repaid under ICR when they are first consolidated into a Direct Consolidation loan. Remember to consult with the school from which you obtained your Perkins Loan before consolidating it to find out whether you can benefit from Perkins cancellation. These provisions will be lost if Perkins Loans are consolidated.

Paying under ICR

Your lender or servicer will calculate your monthly payment amount using your discretionary income (including your spouse's income if you file your taxes jointly), household size, and total outstanding eligible federal loans.

ICR has special rules for calculating monthly payment amounts. Monthly payment amounts will be the lesser of:

1. A monthly payment amount that would result in your federal loans being paid off in twelve years; OR
2. A monthly payment amount that is equal to twenty percent of your discretionary income.

You can estimate your loan payments using the Department of Education's repayment estimator.

As noted above, ICR also has a cancellation provision that cancels any principal and interest remaining on your loans if you enrolled in ICR and are still repaying after 25 years (time spent in forbearance or deferment other than an economic hardship deferment does not count).

IDR Additional Considerations

Interest Accumulation and Capitalization

IDR Plans, have many perks, but also have some downsides. Two of these are interest accrual and capitalization.

Because IDR plans calculate your monthly payments based on a percentage of your discretionary income, rather than the amount necessary to pay off interest every month, you may accumulate large amounts of unpaid interest (often termed accrued interest). And since your monthly payments are required to be allocated to accrued interest first, it is possible that you could be paying off very little of the actual loan principal.

Aside from accrued interest, another downside to IDR plans is capitalization. Capitalization is defined as "the addition of unpaid accrued interest to the principal balance of your loan." Capitalization results in an increase in the amount you pay over the total life of the loan. Capitalization can be thought of as paying "interest on interest."

Capitalization only occurs in five circumstances when you are enrolled in an IDR plan:

1. Your discretionary income rises to a point where you no longer have a partial financial hardship (IBR and PAYE plans).
2. You switch from an IDR plan to another repayment plan.
3. You fail to recertify your income annually.
4. While enrolled in an IDR plan, you enter into a forbearance or deferment. Upon the ending of each forbearance and/or deferment period, all accrued interest capitalizes.
5. When enrolled in ICR – but subject to the restrictions in the note below.

NOTE: Both the PAYE and ICR plans possess capitalization restrictions. Under these plans, capitalization will cease when the outstanding principal balance on your loans is 10 percent greater than it was when you initially entered the plans.

Interest Accrual Protections under the IDR Plans

The PAYE, REPAYE and IBR plans do provide interest accrual protections. Under each plan, the government pays all accrued interest on subsidized loans or the subsidized portion of a consolidation loan for the first three years of repayment. REPAYE provides an additional protection as the government also pays 50 percent of accrued interest after the three-year period ends.

NOTE: ICR provides no interest accrual protections but does, as noted above, limit the amount of interest that can be capitalized.

Married Borrowers and the IDR Plans

If you are married while repaying your federal student loans, it is important to understand how your spouse's federal student debt and income can affect your monthly payments under the IDR plans.

For the purposes of determining a partial financial hardship (PAYE and IBR): Your spouse's adjusted gross income (AGI) and federal student debt is combined with yours to determine if you have the necessary partial financial hardship to enroll in the plan. However, this only occurs if you file your taxes "married jointly." If you file your taxes married separately, then only your AGI and federal student debt will be considered.

IF YOU DO DECIDE TO FILE YOUR TAXES "MARRIED JOINTLY":

When calculating a partial financial hardship, you add the total federal loan amount for you and your spouse, add your AGIs, and then calculate as normal. You simply consider: would the Standard Repayment Plan (10 years) monthly payment on the combined federal student debt be more than ten percent (PAYE and IBR-new borrowers) or fifteen percent (IBR-old borrowers) of combined discretionary income? If so, you and your spouse possess the necessary partial financial hardship and both of you can repay your loans under the PAYE and/or IBR plans.

FOR THE PURPOSES OF CALCULATING MONTHLY PAYMENTS (ALL PLANS):

REPAYE: Both you and your spouse's income and federal student loan debt is used to calculate monthly payment amounts, regardless of whether you file your taxes "married jointly" or "married separately."

PAYE, IBR, and ICR: Both you and your spouse's income and federal student loan debt is used to calculate monthly payment amounts if you file your taxes "married jointly," and not "married separately."

Even if your spouse's income and debt is considered, your monthly payments are based on your own portion of the total federal student loan debt and your spouse's are based on his/hers. Consider the following example:

Bob and Sherry, a married couple, possess a household AGI of $160,000, each making $80,000 a year. Bob has $150,000 in federal loans, and Sherry has $300,000 in federal loans. What would each person be required to pay under the IDR plans?

6. **First, ask how much you want to pay under an IDR plan based on combined federal student loan debt and combined AGI.**

   Bob and Sherry have a combined AGI of $160,000 and a combined federal loan debt of $450,000. They would pay $1,695 under IBR, $1,130 under PAYE, $1,130 under REPAYE, and $2,076 under ICR.

7. **Second, you must determine what portion of the total monthly loan payment each person is responsible for.**

   To do this, as noted above, you ask what portion of the combined federal loan balance you are responsible for, then multiply that amount by the total loan payment.

   Since Bob has $150,000 of the $450,000 in total loans, he has one-third of the total loan debt. This means that Bob pays one-third of the required monthly payment under each of the IDR plans. Bob would be responsible for monthly payments of $377 under REPAYE, $377 under PAYE, $565 under IBR, and $692 under ICR.

   Sherry has $300,000 of the $450,000 in total loans and occupies two-thirds of the total loan debt. This means that Sherry pays two-thirds of the required monthly payment under each of the IDR plans. Sherry would be responsible for monthly payments of $754 under REPAYE and PAYE, $1,130 under IBR, and $1,384 under ICR.

REMINDER: The repayment estimator can also do calculations for married borrowers. This example is for informative purposes.

It is worth emphasizing the impact of spousal income and debt on your monthly payments if you enroll in REPAYE.

As noted above, all the IDR plans except REPAYE only consider a spouse's income and debt if taxes are filed married jointly and not married separately. This gives you the option to decide when you want to use your spouse's information and when you do not.

However, in REPAYE the spouse's information is ALWAYS used. This can sometimes make REPAYE undesirable, despite the plan requiring you pay a low amount of discretionary income (ten percent) on your federal student loan payments.

EXAMPLE: Suzie and Jeff, a married couple, possess a household AGI of $150,000, each making $75,000 a year. Suzie has $120,000 in federal loans; Jeff has no federal student loans. What would Suzie be required to pay?

Under PAYE, if Suzie files her taxes married separately, she would pay $422 a month on her loans. However, under REPAYE, Suzie would pay $1,047 a month regardless of how she files her taxes.

REPAYE's requirement of always considering the spouse's information can get expensive. In cases where the spouse is a high earner, it may be worthwhile to consider other IDR plans, even where the percentage of discretionary income you pay is higher. For example, under an IDR plan, which requires fifteen percent of discretionary income as compared to the ten percent required by REPAYE, Suzie still only pays about $633 a month if she files taxes "married separately."

NOTE: Regardless of how you file your tax returns, if you are separated from your spouse or unable to reasonably access your spouse's income information, only your individual income will be used to calculate your monthly payment amount under any of the IDR plans.

Leaving an IDR Plan

An IDR plan may not work for you throughout the entire repayment of your loan(s). It is important to understand not only when you can switch plans, but also the consequences of switching an IDR plan.

Generally, you can switch between payment plans at any time. You can switch **between IDR plans,** from an **IDR plan to a balance based plan,** or from a **balance based plan to an IDR plan.** In fact, the only restriction on switching between plans is that when switching from an **IDR plan to a balance based plan,** or from a **balance based plan to another balance based plan,** you cannot switch to a balance based plan with a length of time less than the time you have already spent in repayment.

For example, if a borrower made 11 years of payments under PAYE, that borrower could not switch to a Standard Repayment Plan (10 years). Similarly, a borrower who made 12 years of payments under the Extended Repayment Plan could not switch to the Standard Repayment Plan (10 years).

WHAT ARE THE CONSEQUENCES IF I SWITCH PLANS?

There are three matters to consider of when it comes to switching plans:

8. First, accrued interest always capitalizes when switching between plans. When switching from a **balance based plan to an IDR plan,** this is not relevant since balance based plans prevent interest from accruing. However, capitalization should be considered when switching **between IDR plans** or from an **IDR plan to a balance based plan** since IDR plans often result in large amounts of accrued interest.
9. Second, if you switch from **IBR to another IDR plan or balance based plan,** you must switch to a Standard Repayment Plan (10 year) first, make one payment under the Standard Repayment Plan (10 year), and then switch to the plan you desire (unless of course the Standard Repayment Plan was your desired plan). If you cannot afford the required Standard Repayment Plan (10 year) payment, you can request your loan servicer reduce the required payment to $5 via a reduced payment forbearance. **Only IBR requires this step. Individuals in the PAYE, REPAYE and ICR plans may switch to another IDR plan or balance based plan without making this additional Standard Repayment Plan (10 year) payment.**

10. Third, if you switch from an **IDR plan to a different IDR plan,** or from a **balance based plan to an IDR plan,** you must certify your income. If you request an IDR plan, via the Income Driven Repayment (IDR) Plan Request Form, but do not certify your income, you will automatically be removed from your existing plan and placed in the Standard Repayment Plan (10 years) until you certify your income. Once certification of income is completed, you are then placed in the IDR plan you desired.

IF I SWITCH PLANS, WHAT WILL MY NEW REPAYMENT PERIOD BE?

Your new repayment period will depend on the plan you switch to. For the standard, extended, and graduated plans, the repayment period is the period provided under the new repayment plan, calculated from the day your federal loan first entered repayment. For example, if you have been repaying under ICR for 5 years, and switch to a standard ten-year payment plan, your new payments will be calculated at an amount necessary to pay off your remaining loan balance in five years.

NOTE: Switching from an IDR plan to a balance based plan means that you forfeit access to the loan cancellation provisions offered under those IDR plans as well as access to Public Service Loan Forgiveness.

Under the IDR plans, which have cancellation provisions, the rules are similar but slightly different. If you switch from an **IDR plan to another IDR plan,** or **balance based plan to an IDR plan,** your repayment period for the new IDR plan is the amount of time necessary to receive cancellation under the new IDR plan (including time spent in repayment in other plans). For example, if you had Grad PLUS Loans and made payments under PAYE for 4 years then switched to REPAYE, you would achieve loan cancellation after 21 years (as REPAYE provides for loan cancellation after 25 years for borrowers with graduate and professional loans).

NOTE: The rules for IDR plan repayment periods are the same, regardless of how many times you switch plans. For example: If Peter Prosecutor made 2 years of monthly payments under the Standard 10-Year Repayment plan, then switched to REPAYE and made 7 years of monthly payments, Peter would qualify for loan cancellation after 11 years if Peter switched to PAYE (which offers loan cancellation after 20 years).

Comparing IDR Plans

Below are a few examples that compare IDR plans. All of these examples use the repayment estimator. Unless otherwise noted in the example, we assume that your income will grow five percent each year, that your family size will remain the same during the life of the loan, and that the poverty guidelines will increase based on the Congressional Budget Office's estimation of inflation. In the event income changes, so will monthly payment amounts under the IDR plans.

EXAMPLE A. Paul is single with $100,000 in FFEL Grad PLUS Loans with an interest rate of six percent and has an adjusted gross income of $65,000. He has a household size of 1. What will Paul pay under the various payment plans?

- Standard: $1,110 per month for 120 months with a total loan cost of $133,225.
- Graduated: $635-$1905 for 120 months with a total loan cost of $142,120.
- Extended (fixed payments): $644 per month for 300 months with a total loan cost of $193,290.
- Extended (graduated payments): $500-$970 per month for 300 months with a total loan cost of $210,289.
- IBR (at 15 percent): $586-$1,110 per month for 184 months with a total loan cost of $161,810.

REMINDER: Since Paul has FFEL loans, he cannot participate in the PAYE, REPAYE, and ICR plans.

As you can see, Paul benefits greatly from IBR, as he makes half the monthly payment he would be required to make under the Standard Repayment Plan. Though he pays approximately $30,000 more over the life of the loan under IBR than he would under the Standard plan, he has 64 more months to pay it.

EXAMPLE B. Paul marries and converts his $100,000 in FFEL loans to a Direct Consolidation Loan. Paul's wife makes $50,000 a year and has no federal student debt of her own. Paul and his wife file their taxes as married filing separately. What would Paul pay on his loans under the various repayment plans?

- Standard: Paul pays $600 per month for 360 months with a total loan cost of $215,838.
- Graduated: Paul pays $500-$818 per month for 360 months with a total loan cost of $232,868. *Since Paul consolidated his loans, his Standard and Graduated Repayment Plan periods extend from 10 years to 30 years.*
- Extended (fixed payments): Paul pays $644 per month for 300 months with a total loan cost of $193,290.
- Extended (graduated payments): Paul pays $500-$970 per month for 300 months with a total loan cost of $210,289.
- REPAYE: Paul pays $755-$ 1,376 per month for 141 months with a total loan cost of $141,643.
- PAYE: Paul pays $339-$1,051 per month for 240 months with a total loan cost of $153,433.
- IBR (at fifteen percent): Paul pays $508-$1,110per month for 206 months for a total loan cost of $172,927.
- ICR: Paul pays $813 – $1,087 per month for 144 months for a total loan cost of $142,829.

If Paul pays his new consolidation loan under PAYE instead of going into the Standard Repayment Plan (30 years), he saves almost $300 per month initially, makes only 240 monthly payments (instead of 360), and pays $62,000 less over the life of the loan.

Notice that Paul pays more per month under REPAYE since his wife's income is counted toward his AGI even though Paul filed his taxes as "married separately." In this case, IBR might be better for Paul than REPAYE (or at least cheaper), even though IBR requires fifteen percent of discretionary income (assuming Paul is not a new borrower) and REPAYE only requires ten percent.

EXAMPLE C. Before entering repayment on his new Direct Consolidation Loan, Paul and his wife have twins. Paul's wife decides to stay at home for a while, making Paul's household AGI $65,000. What will Paul pay on his loans under each of the repayment plans?

- Standard: Paul pays $600 per month for 360 months with a total loan cost of $215,838.
- Graduated: Paul pays $500-$818 per month for 360 months with a total loan cost of $232,868. *Since Paul consolidated his loans, his Standard and Graduated Repayment Plan periods extend from 10 years to 30 years.*
- Extended (fixed payments): Paul pays $644 per month for 300 months with a total loan cost of $193,290.
- Extended (graduated payments): Paul pays $500-$970 per month for 300 months with a total loan cost of $210,289.
- REPAYE: Paul pays $234-$1,205 per month for 300 months with a total loan cost of $186,028.
- PAYE: Paul pays $234-$887 per month for 240 months for a total loan cost of $121,776.
- IBR (at 15 percent): Paul pays $351-$1,110 per month for 264 months with a total loan cost of $203,739.
- ICR: $673-$1,111 per month for 161 months for a total loan cost of $151,040.

Paul pays $366 less monthly initially under PAYE compared to the Standard Repayment Plan (thirty years) and makes 120 fewer payments. Under REPAYE, Paul initially saves the same amount of money and makes 60 less payments than he would make under the Standard Repayment Plan (thirty years).

This example also demonstrates how household size can affect monthly payments. As a general rule, an increase in household size will decrease monthly payments under an IDR plan, whereas a decrease in household size will increase monthly payments. This is because every person added to a household decreases discretionary income by about $6,000 for the IBR, PAYE and REPAYE plans and by about $4,000 for ICR. Since Paul had twins, his household size went from two to four and his discretionary income decreased by roughly $8,000-$12,000.

LET'S DISCUSS A FEW MORE EXAMPLES.

EXAMPLE D. Deborah graduates from law school with $61,500 in Direct Unsubsidized Loans at four percent, and $65,000 in Direct Grad PLUS Loans at six percent. However, Deborah cannot secure employment. What will Deborah pay under the various repayment plans?

- Standard: $1,343 per month for 120 months with a total loan cost of $161,213.
- Graduated: $760-$2,281 per month for 120 months with a total loan cost of $170,174.
- Extended (fixed payments): $742 per month for 300 months with a total loan cost of $222,464.
- Extended (graduated payments): $530-$1,204 per month for 300 months with a total loan cost of $242,970.
- REPAYE: $0 per month for 300 months with a total loan cost of $0.
- PAYE: $0 per month for 240 months with a total loan cost of $0.
- IBR (at 15 percent): $0 per month for 300 months with a total loan cost of $0.
- ICR: $0 per month for 300 months with a total loan cost of $0.

The example above was meant to emphasize that since IDR plans tie your monthly payments to your income, if you have no income, or very limited income, you pay $0 per month and it will still qualify as an on-time monthly payment.

EXAMPLE E. David has three children. For his three children, David has $350,000 in Parent PLUS Loans which he has consolidated into a Direct Consolidation Loan after July 1, 2006 with an interest rate of 6%. David has an AGI of $65,000. What will David pay under the various repayment plans?

- Standard: David pays $2,098 per month for 360 months with a total loan cost of $755,434.
- Graduated: David pays $1,750-$2,862 per month for 360 months for a total loan cost of $815,038.
- Extended (fixed payments): $2,255 per month for 300 months with a total loan cost of $676,516.
- Extended (graduated payments): $1,750-$3,394 per month for 300 months with a total loan cost of 736,010.
- ICR: $882 to $3,139 per month for 300 months with a total loan cost of $539,269. Since David consolidated Parent PLUS loans, he cannot access the PAYE, REPAYE, or IBR plans.

NOTE: Since David consolidated Parent Plus loans, he cannot access the PAYE, REPAYE, or IBR plans.

By consolidating Parent PLUS Loans, David initially saves a lot of money on his monthly payments using ICR. Without consolidation, David would be required to pay $2,098 under the Standard Repayment Plan for 360 months. This monthly payment would require David to spend almost 100 percent of his after-tax income on his student loans. By consolidating, David initially saves over $1,200 per month on his monthly loan payments.

EXAMPLE F. Dana has an AGI of $85,000 a year and has $55,000 in Direct PLUS Loans at six percent. She is single with no children or dependent persons in her home. How much will Dana pay on her loans under the various repayment plans?

- Standard: Dana pays $611 a month for 120 months with a total loan cost of $73,274.
- Graduated: Dana pays $349-$1,048 a month for 120 months for a total loan cost of $78,166.
- Extended (fixed payments): Dana pays $354 a month for 300 months with a total loan cost of $106,310.
- Extended (graduated payments): Dana pays $275 to $533 a month for 300 months for a total loan cost of $115,659.
- REPAYE: Dana pays $558 to $865 a month for a total of 104 months with a total loan cost of $72,061.
- PAYE: Dana pays $558-$611 per month for 123 months with a total loan cost of $73,940.
- IBR (at 15 percent): Dana does not qualify for this IBR plan due to not possessing the required partial financial hardship.
- ICR: Dana pays $617 to $676 per month for 113 months for a total loan cost of $72,313.

This example demonstrates that IDR plans do not save Dana much money (versus being in balance based plans), given her higher income and lower loan balance. However, the example does demonstrate how valuable payment plans without partial financial hardships can be. As you can see, Dana cannot qualify for IBR (at 15 percent) due to her lack of a partial financial hardship, but can still access ICR and REPAYE (as neither plan require a partial financial hardship).

NOTE: Payment plans that require partial financial hardships also require the capitalization of all accrued interest if the borrower's income grows to the point where she no longer has a partial financial hardship. (Remember that you are not required to leave the plan at that point and are not automatically removed from it.) If your income puts you on the cusp of being disqualified for a partial financial hardship, you may soon have your accrued interest capitalized. In those cases, it might be worthwhile to consider entering into either the ICR or REPAYE plans from the start since the plans do not require a partial financial hardship.

CHAPTER 4

Public Service Loan Forgiveness

FOR THOSE THAT PLAN TO PURSUE A CAREER IN PUBLIC INTEREST LAW, THE PUBLIC SERVICE LOAN FORGIVENESS PROGRAM IS A SIGNIFICANT BREAKTHROUGH. ESTABLISHED BY THE COLLEGE COST REDUCTION AND ACCESS ACT OF 2007, PUBLIC SERVICE LOAN FORGIVENESS (PSLF) OFFERS FORGIVENESS FOR ELIGIBLE FEDERAL DIRECT LOANS AFTER YOU HAVE MADE 120 QUALIFYING MONTHLY PAYMENTS, WHILE WORKING FULL TIME IN A QUALIFYING PUBLIC SERVICE POSITION.

THE BENEFITS CAN BE CONSIDERABLE WHEN COMBINED WITH QUALIFYING IDR PLANS SUCH AS THE IBR, ICR, PAYE, OR REPAYE PLANS. FOR A DETAILED EXPLANATION OF IDR REPAYMENT PLANS, GO TO "CHAPTER 3: INCOME-DRIVEN REPAYMENT PLANS."

IT IS IMPORTANT TO MAKE SURE YOU TAKE THE RIGHT STEPS SO THAT YOU ARE ELIGIBLE TO APPLY FOR, AND RECEIVE FORGIVENESS AFTER MAKING YOUR 120 QUALIFYING MONTHLY PAYMENTS.

There are four steps to earning Public Service Loan Forgiveness

- **Step 1:** Make sure you have eligible loans.
- **Step 2:** Make sure you are working full-time in qualifying employment.
- **Step 3:** Make 120 qualifying payments on those eligible loans while you're employed in a qualifying public service position.
- **Step 4:** Apply for forgiveness!

Below outlines each of these four steps in detail so that you know what is necessary to qualify for public service forgiveness. You also should use Equal Justice Works' Public Service Loan Forgiveness Checklist to help you stay on track.

Step 1: Eligible Loans

The first step in working toward Public Service Loan Forgiveness is to make sure you have the right types of federal loans. **Only Federal Direct Loans are eligible for Public Service Loan Forgiveness (PSLF),** which means that only payments made on Federal Direct Loans count toward the required 120 qualifying payments, and only Federal Direct Loans will be forgiven. Only **Federal Direct Subsidized Stafford, Unsubsidized Stafford** (now referred to as Direct Subsidized and Direct Unsubsidized), **Grad PLUS,** and **Federal Direct Consolidation Loans** are eligible.

Parent PLUS, FFEL Loans, and FFEL Consolidation Loans can become eligible for Public Service Loan Forgiveness by being consolidated into a Direct Consolidation Loan. However, there are a few caveats to this rule:

- For Parent PLUS loans consolidated into a Direct Consolidation Loan, the new consolidation loan must be repaid under ICR, and the consolidation must have occurred on or after July 1, 2006.
- FFEL Consolidation Loans that consolidated the separate federal student loan debt of two married individuals into one loan are ineligible for PSLF because spousal consolidation loans cannot be converted into a Direct Consolidation Loan.
- Only payments made on the new Direct Consolidation Loan count toward the payments required for PSLF.

TIP: If you do not know which type of loans you have borrowed, or how loan consolidation works, bookmark this page so you can return to it and go to Chapter 1: Understanding Your Student Loans and Loan Consolidation for an explanation.

Step 2: Qualifying Employment

To qualify for Public Service Loan Forgiveness, you'll need to be working full-time in a qualifying public service position, while you make each of your 120 qualifying payments, and at the time you send in your application for forgiveness, and when forgiveness is ultimately granted.

What employment is considered full-time?

The Department of Education's final regulations define "full-time" as working in qualifying employment in one or more jobs **for the greater of:**

- An annual average of at least 30 hours per week.
  You may combine one or more part-time jobs to reach the required average of 30 hours per week, but each of your employers must qualify. For example, you may work part time for the government and part-time for a 501(c)(3) and add these hours together to reach 30 hours per week.
- For a contractual or employment period of at least eight months, an average of 30 hours per week.
  Many legal fellows are employed under periodic contracts. To qualify, they would have to work an average of 30 hours a week over the term of the contract, which must be a period of at least eight months.
- Or, unless the qualifying employment is with two or more employers, the number of hours the employer considers full-time. Labor regulations prevent employers from requiring an employee to work more than 40 hours per week in order to be considered a full-time employee.
  For example: If your employer considers a full-time position to require 40 hours per week, you must be working 40 hours per week to qualify, but if you are working two part-time qualifying jobs, these will need to add up to only 30 hours per week.

NOTE: If you take vacation or leave time provided by your employer, or take leave pursuant to the Family and Medical Leave Act, this is not counted against you when calculating the annual or contractual average hours you have worked.

Types of Employment Eligible for Public Service Forgiveness

- **FEDERAL, STATE, LOCAL OR TRIBAL GOVERNMENT:** You may work for any level of government: a local, State, Federal or Tribal government organization, agency or entity. You may be employed in any position, with one exception: you may not be a member of the U.S. Congress. However, you may work in Congress or for a Senator or Representative.
- **A TRIBAL UNIVERSITY OR COLLEGE**
- **A 501(C)(3) NONPROFIT ORGANIZATION:** Employment at a nonprofit organization as defined under section 501(c)(3) of the Internal Revenue Code that is exempt from taxation under section 501(a) of the Internal Revenue Code is qualifying employment. While you may be employed in any position, the Department of Education has indicated that religious instruction, worship services or any form of proselytizing is not qualifying employment. If you are employed by a 501(c)(3) organization that engages in these activities, at least 30 hours or more of your time must be spent on other qualifying activities.
- **A FULL-TIME AMERICORPS POSITION:** Working in a full-time position approved by the Corporation for National and Community Service under Section 123 of the National and Community Service Act of 1990 qualifies.
- **THE PEACE CORPS:** If you are working in a full-time assignment under the Peace Corps Act, this work will count as qualifying employment.
- **A PRIVATE PUBLIC SERVICE ORGANIZATION:** A private public service organization is a nonprofit organization that is not organized under Section 501(c)(3) that provides the following services:
  - Emergency management
  - Military service: Includes active duty members of the U.S. Armed Forces or National Guard, unless the member is attending a service school or engaging in training.
  - Public safety
  - Law enforcement: Services provided must be publicly funded and pertain to crime prevention, crime control or reduction of crime, or the enforcement of criminal law.
  - Public interest law services: legal services must be funded, in whole or in part, by a local, state, federal or Tribal government.
  - Early childhood education: Includes licensed or regulated health care, Head Start, and State funded pre-kindergarten.
    - Public service for individuals with disabilities and the elderly
    - Public health, including nurses, nurse practitioners, nurses in a clinical setting, and full-time professionals engaged in health care practitioner occupations, and health care support occupations, as defined by the Bureau of Labor Statistics.
    - Public education
    - Public library services
    - School library or other school-based services

NOTE: Regardless of the services it provides, a private public service organization cannot be a business organized for profit, a labor union, a partisan political organization, or an organization engaged in religious activities (unless the qualifying activities are unrelated to religious instruction, worship services, or any form of proselytizing).

Additional requirements to know about qualifying employment

- Your qualifying employer(s) must be the one(s) paying you. This means that contract or volunteer work at a 501(c)(3) will not count as qualifying employment.

  For example, a private attorney doing contract work for a Public Defender's office would only have a qualifying employer if that office (or another government agency) actually paid them.
- You may switch jobs! As long as you switch to another qualifying employer and work full-time, your employment will continue to qualify.

Step 3: Qualifying Payments

Each payment must be made separately, on time, and for the full monthly amount due. **In addition, you must be in one of these qualifying repayment plans:**

- A Standard 10-Year Repayment Plan. While payments made under the Standard 10-Year Repayment plan count toward the 120 payments required for PSLF, you should not make 120 payments under this plan because your loan will then be paid off in full and there would be nothing left to forgive.
- A repayment plan in which you make monthly payments that are as much or more than the monthly amount required under the Standard 10-Year Repayment. Limiting your payments to only those that are at least as much as the Standard 10-year amount is also not a viable long-term option.

For example, if you were in a graduated repayment plan where your payments started out low and then increased, only those payments that were at least as much as the standard 10-year amount would qualify. *This option would still present the same issue as the Standard 10-Year Repayment plan with regards to the loan balance being paid off prior to becoming eligible for forgiveness.*

- ICR plan.
- IBR plan.
- PAYE plan.
- REPAYE plan.

NOTE: The IBR, ICR, PAYE, or REPAYE plan will be the preferred repayment plan for most borrowers who ultimately will earn PSLF because these plans help ensure your monthly payments are affordable and that you receive the full forgiveness you have earned in return for their public service.

TIP: If you do not know which repayment plan is best for you, refer to Chapter 3: Income-Driven Repayment (IDR) Plans, for an explanation. **Do not choose an extended repayment plan as they do not qualify for PSLF.** Also, steer clear of graduated repayment plans because most payments made under these plans will not qualify. Additionally, be wary of "standard" plans if you have a consolidation loan because they may have a repayment period longer than ten years and will not qualify.

If you still have questions about how income-driven repayment plans work with PSLF, register for a free informational webinar hosted by Equal Justice Works to learn more.

Additional details you need to know about qualifying payments

- **Qualifying payments do not need to be consecutive.** While you must maintain qualifying public service employment for payments made on your Federal Direct Loans to count toward PSLF, your payments do not need to be consecutive. You may take time off* from your eligible employment (for example, to take a non-qualifying position or to stay home with family).
    - Should you take time off, payments must still be made on your loans (unless you are in deferment or forbearance) but they would not count toward the 120 qualifying payments required for PSLF. However, when you are back in full-time eligible employment, payments will begin to count again – and the count will pick up where you left off.

- **Be wary of consolidating loans on which you've already made qualifying payments.** The Department of Education has indicated that subsequently consolidating Direct Loans on which you've already made qualifying payments toward PSLF will restart the count for these loans.
- **Watch out for Non-qualifying Payments!** Only payments made **after October 1, 2007** on eligible Federal Direct Loans qualify. In addition, the following payments **do not** count toward the 120 required for forgiveness:
  - » Payments made under a fixed-term repayment plan, with a term of more than ten years (e.g., twenty or thirty years);
  - » Payments made while not working in full-time qualifying public service employment;
  - » Payments made on ineligible loans (e.g., FFEL Loans, Perkins Loans);
  - » Payments not made within 15 days of the due date; and
  - » Payments made while you are in default.

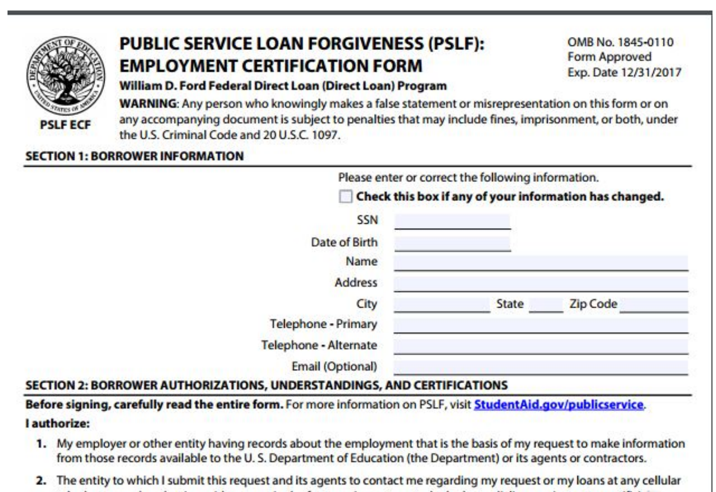
NOTE: If you are choosing a repayment plan for a Federal Direct Consolidation Loan and select the "Standard Repayment" option, your repayment term will differ based on how much you owe. "Standard Repayment" on a Direct Consolidation Loan will not count if the term is longer than 10 years.

TIP: Consider avoiding large, lump-sum payments on your eligible loans. Unless you fall within a narrow exception for Segal AmeriCorps Education Awards, a lump-sum payment will count as only one qualifying payment regardless of the amount you submit.

Step 4: Track Your Payment Progress

You can—and should—track your progress toward the 120 payments required for loan forgiveness via PSLF by using the Public Service Loan Forgiveness Employment Certification Form.

While use of the above form is not required, it is the only way that the Department of Education will keep track of your progress toward meeting PSLF's eligibility requirements. We suggest you submit the form annually, but you may submit the form less frequently to cover more than one year's employment. You also may use the form to cover more than one employer. Whether or not you periodically submit the form, you will be required to submit a form for each employer that you want considered for PSLF at the time that you apply for forgiveness. Tracking progress as you go may be easier than gathering 10 years' worth of information at once and may save you time when you're applying for forgiveness.


PSLF ECF

PUBLIC SERVICE LOAN FORGIVENESS (PSLF): EMPLOYMENT CERTIFICATION FORM

William D. Ford Federal Direct Loan (Direct Loan) Program

OMB No. 1845-0110
Form Approved
Exp. Date 12/31/2017

WARNING: Any person who knowingly makes a false statement or misrepresentation on this form or on any accompanying document is subject to penalties that may include fines, imprisonment, or both, under the U.S. Criminal Code and 20 U.S.C. 1097.

SECTION 1: BORROWER INFORMATION

Please enter or correct the following information.

☐ **Check this box if any of your information has changed.**

SSN
Date of Birth
Name
Address
City State Zip Code
Telephone - Primary
Telephone - Alternate
Email (Optional)

SECTION 2: BORROWER AUTHORIZATIONS, UNDERSTANDINGS, AND CERTIFICATIONS

Before signing, carefully read the entire form. For more information on PSLF, visit StudentAid.gov/publicservice.

I authorize:

1. My employer or other entity having records about the employment that is the basis of my request to make information from those records available to the U. S. Department of Education (the Department) or its agents or contractors.
2. The entity to which I submit this request and its agents to contact me regarding my request or my loans at any cellular

NOTE: Failure to fill out the Employment Certification Form regularly will create more work for you when you apply for forgiveness, because an Employment Certification Form for each qualifying employer must accompany your application.

Step 5: Apply for Forgiveness!

After you make your 120th qualifying payment, you will need to submit the PSLF application to receive loan forgiveness. The application is now available and has been accepted since October 2017, which is the earliest that borrowers were eligible to apply for forgiveness.

When applying for forgiveness, you must (1) complete an application for forgiveness, (2) attach an Employer Certification Form for each qualifying employer to the application, (3) be employed by a qualifying public service organization at the time you submit the application for forgiveness and at the time the remaining balance on your loan is forgiven.

NOTE: Failure to remain employed throughout the application process will result in a denied application. The Department of Education may verify this continued employment.

When you submit the form, it is important to note the first checkbox under Section Two. It allows you to choose to continue paying on your loans while your PSLF application is being processed or to enter a period of forbearance. If you decide to continue to pay your loans, you will receive a refund for any payments you made after the 120 required payments. If you enter forbearance, you will not have to make payments on your loans. However, if your application is denied, all accrued interest will capitalize. Applications are expected to take 60-120 days to process.

As of October 2017, people have started to receive forgiveness! If you or someone you know has earned loan forgiveness through PSLF, or has been denied for any reason, please email us at students@equaljusticeworks.org.

Public Service Loan Forgiveness Is Not Taxed

Forgiveness received through the Public Service Loan Forgiveness program is not considered taxable income.

Generally, income from the cancellation of debt is taxable, but under Section 108(f) of the Internal Revenue Code, certain student loan forgiveness may be excluded from taxable income if forgiven as a result of the borrower working for a certain period "in certain professions for any of a broad class of employers."

The U.S. Department of the Treasury confirmed in a September 19, 2008 letter to members of Congress that Public Service Loan Forgiveness under the College Cost Reduction and Access Act meets the requirements of Section 108(f) and is therefore not taxable income to the borrower.

To learn more about how Public Service Loan Forgiveness works, register for a free informational webinar hosted by Equal Justice Works.

Want to Track Your PSLF Payment Progress?

1. Get the Employment Certification Form from the Student Aid website. https://studentaid.ed.gov/sa/sites/default/files/public-service-employment-certification-form.pdf.
2. Complete Section 1: Borrower Information
3. Sign Section 2: Borrower Authorizations, Understandings, and Certifications
4. Give this to the human resources person (or their equivalent) at your job. Have them complete Section 3: Employer Information and Section 4: Employer Certification.
5. Retrieve the form.
6. Mail the completed form to the address in Section 7: Where to Send the Completed Form.
7. The Department of Education will then review the certification form.
8. The Department will then reply in one of the following ways:
   - Request more information.
   - Send you a letter or email notifiying you of the number of payments you have made toward PSLF and how many more you must make. Additionally, you will be notified whether your present employer qualifies as an eligible public service employer.

Note: Submitting the **Employee Certification Form** may result in your existing loan servicer being changed to fedloan servicing.

TIP: Submit the Employment Certification Form anytime you want an update on how many pslf qualifying payments you have made but **always** submit a new form when you **change employers.**

How Public Service Loan Forgiveness Works: An Example with Pam Prosecutor

Pam Prosecutor is an assistant district attorney in Chicago. She has an adjusted gross income of $45,250. She has a husband, one child and a father for whom she provides 70 percent of support. This means Pam Prosecutor has a household size of 4. Pam also has $85,000 in Direct PLUS Loans at a six percent interest rate from law school. Let's explore how much money PSLF will save Pam under the various repayment plans:

- **PAYE:** Pam pays $70 to $471 a month for 240 months with a total loan cost of $56,471. However, with PSLF, Pam pays $70 to $205 a month for 120 months with a total loan cost of $15,826.
- **REPAYE:** Pam pays $70 to $674 a month for 300 months with a total loan cost of $91,767 However, with PSLF, Pam pays $70 to $205 a month for 120 months for a total loan cost of $15,826.
- **IBR (at 15 percent):** Pam pays $104 to $944 a month for 300 months with a total loan cost of $136,845. However, with PSLF, Pam pays $104 to $308 a month for 120 months for a total loan cost of $23,738.
- **ICR:** Pam pays $344 to $894 a month for 300 months with a total loan cost of $163,632. However, with PSLF, Pam pays $344 to $663 a month for 120 months with a total loan cost of $59,044.

With PSLF, Pam could have monthly payments as low as $73 (under the PAYE or REPAYE plans), make 120 payments, and have up to $126,000 in unpaid loan principal and interest forgiven.

Repayment Plan	First Monthly Payment	Last Monthly Payment	Total Amount Paid	Projected Loan Forgiveness	Repayment Period
Standard	$978	$978	$117,382	$0	120 months
Graduated	$564	$1,693	$126,310	$0	120 months
Extended Fixed	$590	$590	$176,988	$0	300 months
Extended Graduated	$482	$843	$191,709	$0	300 months
Revised Pay As You Earn (REPAYE)	$73	$213	$16,695	$105,552	120 months
Pay As You Earn (PAYE)	$73	$213	$16,695	$126,105	120 months
Income-based Repayment (IBR)	$110	$320	$25,043	$117,757	120 months
IBR for New Borrowers	$73	$213	$16,695	$126,105	120 months
Income-Contingent Repayment (ICR)	$349	$674	$60,204	$84,686	120 months

NOTE: The Department of Education assumes that Pam's income will rise over the course of her career by five percent annually. In the event that Pam's income does not rise by this amount (or at all), her monthly payments will remain closer to her first monthly payment amount. Also, has more children or acquires other dependents, the amount she pays will also decrease.

As you can see, PSLF can save you a lot of money, and allow you to have a public service legal career without being in financial distress.

UPDATE:
Temporary Expanded Public Service Loan Forgiveness

The 2018 Consolidated Appropriations Act provided a $350 cancellation million fund to help borrowers who have met all the requirements for PSLF but made some or all of their payments under a non-qualifying repayment plan for. The Department of Education is referring to this reconsideration as Temporary Expanded Public Service Loan Forgiveness (TEPSLF). TEPSLF is temporary and must be provided on a first come, first served basis. Once all of the funds are used, the TEPSLF opportunity will end.

To qualify for loan forgiveness under TEPSLF, you must have:

- Submitted the PSLF application and been denied only because some or all of your payments were not made under a qualifying repayment plan for PSLF;
- Had at least 10 years of full-time employment certified by qualifying employer(s) and approved by FedLoan Servicing, ED's federal loan servicer for the PSLF Program; and
- Made 120 qualifying payments under the new requirements for TEPSLF while working full-time for your qualifying employer or employers.

As with PSLF, TEPSLF is available only to Direct Loan borrowers. Borrowers with Federal Family Education Loans are not eligible.

To learn more and apply, go to Federal Student Aid.

CHAPTER 5

Loan Repayment Assistance Programs

LOAN REPAYMENT ASSISTANCE PROGRAMS (LRAPS) ARE A POWERFUL TOOL TO HELP YOU MANAGE REPAYMENT OF YOUR EDUCATIONAL DEBT. THESE PROGRAMS HELP YOU MAKE PAYMENTS ON YOUR EDUCATIONAL LOANS AND ARE AVAILABLE FROM A VARIETY OF SOURCES, INCLUDING SCHOOLS, EMPLOYERS, STATES, AND THE FEDERAL GOVERNMENT.

How do Loan Repayment Assistance Programs work?

LRAPs differ from repayment plans like the REPAYE, IBR, PAYE, and ICR plans. They are also different from loan forgiveness programs like PSLF. Rather than lowering your payment amount or providing forgiveness of your educational loans in the future, LRAPs provide funds now to help make payments on your loans.

LRAP funds may help pay down private educational loans that are never eligible for federal relief programs. It also may be possible to use LRAPs in conjunction with some federal relief programs.

For example, if you may be working in qualifying employment for Public Service Loan Forgiveness and enrolled in an income-driven repayment plan to receive lower income-based payments on your Federal Direct Loans. If you qualify for an LRAP, these funds may cover your monthly payments in their entirety until you make 120 of them and the government grants you forgiveness.

LRAPs also are an important tool to help borrowers who may not benefit from income-driven repayment plans or Public Service Loan Forgiveness. More experienced public service employees who graduated before 2007 often fit into this category because they may have high private loan debt or have already spent years in repayment. LRAPs can provide an important form of relief for these borrowers.

Who provides LRAP assistance?

LRAPs may be available from schools, employers, states, and the federal government. You'll need to do some research, but you may have an LRAP available to you.

Employer-Based LRAPs

Many public sector employers now offer Loan Repayment Assistance Programs to their employees. Check with any current or future employers to ensure that you are taking full advantage of any LRAPs that are available to you.

School-Based LRAPs

School-based Loan Repayment Assistance Programs provide financial aid to graduates who have educational debt and take low-paying jobs. Most programs are designed with the goal of enabling graduates to enter public interest and government work. A graduate of a school with a Loan Repayment Assistance Program can apply for and receive funds from the program to help with repayment of educational loans.

The following law schools have LRAPS (as of January 1, 2017):

- Northeastern University School of Law
- Sandra Day O'Connor College of Law, Arizona State University
- James E. Rogers College of Law, University of Arizona (closed to new applicants)
- California Western School of Law
- Golden Gate University School of Law
- Loyola Law School, Loyola Marymount University
- McGeorge School of Law, University of the Pacific
- Pepperdine University School of Law
- Stanford Law School
- University of California, Berkeley School of Law
- University of California, Davis School of Law
- University of California, Hastings College of the Law
- University of California, Irvine School of Law
- University of California, Los Angeles School of Law
- University of San Diego School of Law
- University of San Francisco School of Law
- Gould School of Law, University of Southern California
- Whittier Law School
- University of Colorado School of Law
- Sturm College of Law, University of Denver
- Quinnipiac University School of Law
- Yale Law School
- Widener University School of Law
- The George Washington University Law School
- Georgetown University Law Center
- Washington College of Law, American University
- St Thomas University School of Law
- Emory University School of Law
- University of Georgia School of Law
- John Marshall Law School
- Chicago-Kent College of Law, Illinois Institute of Technology
- DePaul University College of Law
- University of Illinois College of Law
- John Marshall Law School
- Loyola University Chicago School of Law
- Northwestern University School of Law
- University of Chicago Law School
- Indiana University, Robert H. McKinney School of Law
- Notre Dame Law School
- Louis D. Brandeis School of Law, University of Louisville
- Loyola University New Orleans College of Law
- Tulane University School of Law
- University of Maine School of Law
- Boston College Law School
- Boston University School of Law
- Harvard Law School
- University of Michigan Law School
- Washington University School of Law
- Creighton University School of Law
- University of New Hampshire School of Law
- Rutgers School of Law-
- Seton Hall University School of Law
- Benjamin N. Cardozo School of Law, Yeshiva University
- Brooklyn Law School
- Columbia University Law School
- Cornell Law School
- Fordham University School of Law
- Hofstra University School of Law
- Touro College Jacob D. Fuchsberg Law Center
- New York University School of Law
- St. John's University School of Law
- Duke University School of Law
- University of North Carolina School of Law
- Cleveland-Marshall College of Law, Cleveland State

University
- Michael E. Moritz College of Law, Ohio State University
- Case Western Reserve University School of Law
- Capital University Law School
- University of Oregon School of Law
- Lewis & Clark Law School
- Drexel University School of Law
- Duquesne University School of Law
- Beasley School of Law, Temple University
- Dickinson School of Law, Penn State University
- University of Pennsylvania Law School
- University of Pittsburgh School of Law
- Villanova University School of Law
- Roger Williams University School of Law
- University of South Carolina School of Law
- University of Tennessee College of Law
- Vanderbilt University Law School
- University of Texas School of Law
- Vermont Law School
- Regent University School of Law
- Washington and Lee University School of Law
- Marshall-Wythe School of Law, The College of William and Mary
- University of Virginia School of Law
- Gonzaga University School of Law
- Seattle University School of Law
- University of Washington School of Law
- West Virginia University College of Law
- Marquette University Law School
- University of Wisconsin Law School

State-Based LRAPs

Some states also offer LRAPs that can ease the burden of educational debt. State-based LRAPs may be created and administered by state education administrations, independent nonprofit organizations, and professional associations or foundations. Some municipalities also have begun to offer LRAPs to graduates as an incentive to relocate to and work in a specific area.

The following states have LRAPS (as of January 1, 2017):

- Arizona
- District of Columbia
- Florida
- Indiana
- Louisiana
- Kansas
- Maine
- Maryland
- Minnesota
- Montana
- Nebraska
- New Hampshire
- New Mexico
- New York
- North Carolina
- Ohio
- Oregon
- Pennsylvania
- Texas
- Vermont
- Virginia

Federal Government LRAPs

Federal law allows any federal agency to start an LRAP for employees of that agency. Federal agencies are authorized by statute to set up Loan Repayment Assistance Programs to recruit and retain highly qualified employees. The U.S. Office of Personnel Management (OPM) has created a Student Loan Repayment Program Fact Sheet.

Participating agencies determine their own program requirements within the requirements of 5 U.S.C. 5379 which states:

- Agencies are authorized to provide up to $10,000 per calendar year with a lifetime limit of $60,000.
- Recipients of loan repayment assistance must agree to a three-year service obligation.
- Only federal student loans are eligible for assistance. Eligible loans include:
- Federal Direct and FFEL Stafford Loans (Subsidized and Unsubsidized)
- Federal Direct and FFEL PLUS Loans
- Federal Direct and FFEL Consolidation Loans
- Federal Perkins Loans: National Defense Student Loans, National Direct Student Loans, Perkins Loans
- Public Health Service Act Loans: Loans for Disadvantaged Students (LDS), Primary Care Loans (PCL), Nursing Student Loans (NSL), Health Professions Student Loans (HPSL), Health Education Assistance Loans (HEAL)
- The U.S. Office of Personnel Management (OPM) submits annual reports to Congress on federal agencies' Loan Repayment Assistance Programs including:
- The number of employees who received student loan repayment benefits;
- The job classifications of the employees who received student loan repayment benefits; and
- The cost to the federal government of providing student loan repayment benefits.
- As of the 2015 OPM report, the following federal agencies/departments have LRAPS:

- Department of Commerce
- Department of Defense
- Department of Agriculture
- Department of Education
- Department of Energy
- Department of Health and Human Services
- Department of Homeland Security
- Department of Housing and Urban Development
- Department of the Interior
- Department of Justice
- Department of Labor
- Department of State
- Department of Transportation
- Department of Treasury
- Department of Veteran Affairs
- Chemical Safety and Hazard Investigation Board
- Commodity Futures Trading Commission
- Defense Nuclear Facilities Safety Board
- Export-Import Bank
- Environmental Protection Agency
- Federal Energy Regulatory Commission
- Federal Retirement Thrift Investment Board
- Federal Trade Commission
- General Services Administration
- Government Accountability Office
- Library of Congress
- National Archives and Records Administration
- Nuclear Regulatory Commission
- Pension Benefit Guaranty Corporation
- Postal Regulatory Commission
- Securities and Exchange Commission
- Surface Transportation Board

Important Questions to Ask About Any LRAP

LRAPs vary greatly. They have different requirements, restrictions and benefits. Some things to consider are varying payment amounts and duration of eligibility, whether you'll be able to benefit from more than one LRAP at the same time, and whether your LRAP money is taxable.

Equal Justice Works has compiled some important questions you should ask about any LRAP program that you are considering.

LRAP Basics

Q: How much assistance does the program provide?

You need to know how much the program's payments are and whether these are disbursed on a monthly or annual basis.

Q: Is there a cap on total assistance?

You need to know whether your eligibility will end once you've received a certain amount in payments.

Q: How are other LRAP benefits considered?

You need to know whether you will be able to take advantage of other LRAPs that are offered from the government, your employer, or your school. If so, will the amount you receive affect your ability to qualify for assistance from this program? Will it affect the amount you receive through this program?

Q: How is the LRAP funded?

You need to know this in order to determine if you are able to rely on the availability of funds in the future.

Q: Is the LRAP structured as a forgivable loan or as a grant?

This question is very important because it may determine whether the LRAP funds you receive are taxable as income. Grants are taxable, while forgivable loans may be structured so they are not taxable income. An Official Revenue Ruling states that most law school-based loan forgiveness programs meet the requirement of 108(f) and will not be taxed.

LRAP Requirements

Q: Which student loans are eligible?

Find out if the LRAP covers loans from undergraduate, graduate, and/or professional studies. Learn also if you'll be able to use the LRAP to pay down private as well as government loans.

Q: What service obligation(s) do I have, and for how long?

You will want to know if there is an employment requirement and if you must work for a certain number of years to qualify.

Q: Is there a limit on how long I can participate?

There are two components to this query: first, are you eligible only for a certain number of years after graduation? Second, will you no longer be eligible after you've participated and received assistance for a certain number of years?

LRAP Employment

Q: What employment qualifies?

For example, must you be working in the public interest? Does the program define "public interest?"

Q: Must I have a specialized license?

You will need to find out if the program requires you to have passed an exam or received specific certification. For example, for a law school LRAP, must you have passed the bar exam or do you need to be in employment that requires a law license or degree?

Q: Must I be practicing in a certain profession?

Make sure to find out if the program requires you to be employed in a certain type of position (e.g. you may have to be practicing law to be eligible).

LRAP Income

Q: Is there an income cap and what is it?

Will you no longer be eligible if your salary increases?

Q: How is "income" calculated?For example, will the program count your spouse's income?

Will it count any inheritance or assets against your income?

Additional Questions to Ask About State-Based LRAPs

When researching state-based LRAPs, you'll want to ask a few more specific questions:

Q: Is there a program where I want to work within my profession?

This should be the first question you ask. Many states and professional associations offer LRAPs, and some municipalities are beginning to offer LRAPs. Lawyers: check the ABA's list to see if there is a program where you want to practice.

Q: What types of employment are covered?

Depending on your field, the definition for employment may vary. For example, for lawyers, most states include civil legal aid, and some include public defense, prosecution and/or other government and nonprofit legal organization work. If you are a practicing lawyer, check the ABA's information on eligible employment to see if you qualify for your state's LRAP.

Q: Must I live in the state?

States typically require you to work in the state. You'll also want to find out if you must live in the state as well.

Q: Are graduates of state schools given preference?

You'll need to find out if there is a preference for graduates of state schools, especially if there are limited funds available.

TO LEARN MORE ABOUT HOW LRAPS WORK, REGISTER FOR AN INFORMATIONAL WEBINAR HOSTED BY EQUAL JUSTICE WORKS.

The Federal John R. Justice Student Loan Repayment Program

The John R. Justice Student Loan Repayment Program (JRJ) was established by the John R. Justice Prosecutors and Defenders Incentive Act of 2008. It provides loan repayment assistance for local, state, and federal public defenders and local and state prosecutors who agree to remain employed as public defenders and prosecutors for at least three years.

JRJ funds are allocated annually from the Bureau of Justice Assistance (BJA) and are awarded and administered by designated state agencies. Repayment and awarded benefits cannot exceed $10,000 in any calendar year or an aggregate total of $60,000 per attorney. Additionally, each state must allocate grants equally between prosecutors and public defenders, giving priority to those eligible beneficiaries who have the least ability to repay their loans.

Limits on JRJ Funds

While the program is allowed to provide individuals with up to $10,000 a year toward assistance with their student loan payments, there is rarely enough funding allocated to give participants this amount. This is particularly problematic for local and state public defenders and prosecutors as states may only receive $30,000 to $50,000 a year to fund the program. In 2016, the states each received an average of $38,500. As a result of such limited funding, the following states no longer participate in the John R. Justice program: Alaska, DC, Montana, Indiana, Pennsylvania, New Jersey, Tennessee, and Texas.

Eligible Attorneys

As stated earlier, JRJ is open to state and federal public defenders and state prosecutors who agree to remain employed as public defenders and prosecutors for at least three years. In addition, all eligible attorneys must be "continually licensed to practice law."

The following definitions apply to eligible attorneys:

- **Prosecutors** are full-time employees of a state or unit of local government (including tribal government), who "prosecute criminal or juvenile delinquency cases at the state or unit of local government level."
- **Public defenders** are either full-time employees of a unit of state or local government (including tribal government), or full-time employees of a nonprofit organization operating under a contract with a state or unit of local government, who "provide legal representation to indigent persons in criminal or juvenile delinquency cases."
- Full-time **federal defender attorneys** in a defender organization providing legal representation to indigent persons in criminal or juvenile delinquency cases pursuant to subsection (g) of section 3006A of Title 18, United States Code are eligible.
- Attorneys providing supervision, education, or training of other persons providing prosecutor or public defender representation also are eligible.

The following attorneys are not eligible for JRJ grants:

- Prosecutors who are employees of the federal government are not eligible.
- Attorneys who are in private practice (and not a full-time employee of a nonprofit organization) are not eligible, even if providing public defense services under contract to the state.
- An attorney must not be in default on repayment of any federal student loans.

Applying for John R. Justice funds

When applying for John R. Justice (JRJ) funds, you must follow the procedure set forth by your designated state agency. You can find a list of designated state agencies on the BJA's website.

If you receive a John R. Justice award, you will need to commit to and complete a three-year service requirement; you will also need to certify your continued employment as an eligible attorney.

- Bureau of Justice Assistance John R. Justice Student Loan Repayment Program Information Page
- John R. Justice Student Loan Repayment Program (JRJSLRP) Service Agreement Fillable PDF Form
- Bureau of Justice Assistance John R. Justice Frequently Asked Questions

John R. Justice funds may only be used to repay certain loans

Federal student loans (FFEL, Federal Direct, and Perkins Loans) are eligible for assistance; however, loans in default, Parent PLUS Loans, federal consolidation loans that repaid a Parent PLUS Loan, and private, commercial, or alternative student loans are not eligible.

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

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Rafael A. Madan, General Counsel
Department of Justice
Office of Justice Programs
Office of the General Counsel
Washington, DC 20531

Attention: Matthew T. Scodellaro

Dear Mr. Madan:

This responds to your letter submitted on behalf of the Bureau of Justice Assistance (BJA) of the Office of Justice Programs, U.S. Department of Justice, at the request of the state administrative agencies (SAA) that administer payments made under the John R. Justice Student Loan Repayment Program (JRJ Program), 42 U.S.C. § 3797cc-21. Specifically, you asked whether a student loan borrower may exclude loan forgiveness under the JRJ Program from gross income and whether the SAA should file information returns with the Internal Revenue Service reporting the loan forgiveness.

John R. Justice Student Loan Repayment Program

In 2008, Congress established the JRJ Program to encourage qualified attorneys to choose careers as state prosecutors and public defenders. In general, a prosecutor is defined as a full-time attorney of a state or unit of local government, and a public defender is defined as a full-time attorney of (i) a state or unit of local government, (ii) a nonprofit organization under a contract with a state or unit of local government, or (iii) a federal defender.

Under the JRJ Program, an eligible student loan borrower with one or more eligible student loans may receive up to $10,000 in loan repayments in any calendar year, up to an aggregate total of $60,000. In general, under the JRJ Program, state prosecutors and public defenders who meet certain requirements may have the federal government repay a portion of their student loans after completing qualifying full-time employment for at least three years. The JRJ Program is funded from Congressional appropriations as specified in 42 U.S.C. § 3797cc-21(j) and is carried out by BJA, through SAAs, that assumes the "obligation to repay a student loan by direct payments on behalf of a

Taxability of John R. Justice loan forgiveness

Funds received from the John R. Justice program are not taxable. This was confirmed in a letter published by the Department of the Treasury's Office of the General Counsel in December of 2012. The letter can be accessed by clicking the image below.

State-by-State Administration

Governor-designated state agencies (or in the case of Washington, D.C., a mayor-designated agency) conduct outreach and education, solicit applications from eligible recipients, and administer the JRJ Program in each state. Each designated state agency is eligible to apply for funding to distribute equally between prosecutors and defenders within their state.

Funding for the program has been steadily decreasing since 2012. In 2012, states were guaranteed to receive at least $100,000. This dropped to $50,000 for 2013 and $30,000 for 2014 and beyond.

Resources for Designated State Agencies

The BJA issues Program Application Guidance for state agencies. Equal Justice Works, in consultation with the BJA, developed a description of the grant application process, a sample of state JRJ program guidelines, and a sample application. These materials are designed to assist managers of the designated state agencies who have been charged with the responsibility of administering John R. Justice funds in their state.

- 2016 John R. Justice Student Loan Repayment Grant State Award Amounts (Inc. Territories)
- List of designated state agencies
- FY 2018 Program Application Guidance
- Bureau of Justice Assistance John R. Justice Student Loan Repayment Program Information Page
- Bureau of Justice Assistance John R. Justice Frequently Asked Questions (FAQs)
- John R. Justice (JRJ) Grant Student Loan Repayment Program Quick Reference for Reporting Recipients in Exited/ Repayment Status
- John R. Justice Student Loan Repayment Program (JRJSLRP) Service Agreement Fillable PDF Form

Employer-Based Assistance for Public Interest Lawyers

Facts about Employer-Based LRAPs from the 2012 biennial NALP (The Association for Legal Career Professionals) Public Sector & Public Interest Attorney Report:

- > 56 organizations reported having an LRAP program in 2010 (35 civil legal services organizations, four public defender offices, nine local prosecuting attorney offices, and eight other public interest organizations).
- > 465 attorneys were reported to have received an award in the most recent fiscal year.

Legal Services Corporation's Herbert S. Garten Loan Repayment Assistance Program

New attorneys (employed by a Legal Services Corporation organization for less than five years at the time of application) may be eligible for forgivable loans of up to $5,600 per year for up to three years (dependent upon continuing eligibility and funding). Attorneys must not have a salary of more than $62,500 ($78,125 in Alaska and $71,875 in Hawaii) and they must have more than $75,000 in law school loans. LSC funds must be used to pay qualifying law school loans and participating attorneys are expected to remain with an LSC-funded legal services program for three years. Loans forgiven under this LRAP are not taxable.

In 2016, 70 lawyers were selected to receive assistance based on a lottery system. However, once in the LSC LRAP, lawyers are guaranteed to receive funding for three years, assuming they continue to meet the eligibility requirements.

More information can be found on the program's information page or by contacting LRAPcoordinator@lsc.gov.

APPENDIX A

Resources for Successful Debt Management

BECAUSE THE BURDEN OF EDUCATIONAL DEBT CAN BE A SIGNIFICANT BARRIER TO HAPPINESS AND CAREER SUCCESS, EQUAL JUSTICE WRKS PROVIDES INFORMATION PROSPECTIVE AND CURRENT STUDENTS, GRADUATES, ADVISORS AND EMPLOYERS NEED TO MAKE IMPORTANT FINANCIAL DECISIONS.

Resources at Equal Justice Works

Monthly Webinars: Equal Justice Works hosts free monthly. Register for these webinars on our website.

School and Office Visits: Our educational debt relief experts are available to present at your school or office to help students, employees, and colleagues learn how to manage their student debt burden. Equal Justice Works is also available to provide guidance on creating or revising loan repayment assistance programs. Email students@equaljusticeworks.org for more information.

Student Debt Assistance: Receive personalized assistance with your law school debt issues. Email students@equaljusticeworks.org for assistance.

Debt Digest: This monthly newsletter provides you with information on news, events, advocacy opportunities and resources available to help you manage your law school debt. You can sign up here.

Additional Resources

The Guide to Federal Student Aid 2018-19: Do You Need Money for College: This short guide from the Department of Education provides you with an overview of the basics around applying for and receiving federal aid. This guide should not be relied on for in-depth information about federal student aid.

Financial Aid for Graduate and Professional Degree Students: This guide from the Department of Education compiles basic information about federal grants and federal loans that can be used to pay for law school.

FAFSA4caster: This useful tool created by the Federal Student Aid Office of the Department of Education allows you to receive an estimate of the federal student aid (loans, grants, and work-study) you may be eligible to receive for the upcoming school year.

Department of Education's Public Service Loan Forgiveness Fact Sheet: This fact sheet provides basic information about how to qualify for Public Service Loan Forgiveness. For more detailed information about PSLF, visit Chapter 4 of this e-book.

Department of Education's PSLF Q&A Sheet: This fact sheet provides answers to many of the common questions you may have about receiving PSLF, including eligibility requirements and how to apply.

Public Service Loan Forgiveness (PSLF): Employment Certification Form: This form allows you to track your progress toward PSLF. Consult our Chapter 4 of this e-book for more information.

NOTE: Submitting the Employment Certification Form is not required. However, if you do not submit an Employment Certification Form for every eligible employer prior to filling out an application for forgiveness under PSLF, you will be required to submit a form for each employer with your application.

Department of education's repayment estimator: This useful tool allows you to see what your monthly payment amount(s) might be under the various repayment plans over the life of your loan(s). If you log-in with your FSA ID and password, the tool will base the estimates on the exact details of your loans. Or you can calculate probable payment amounts by estimating the amount of federal loans you have borrowed and/or plan to borrow.

Department of Education's Factsheet on Federal Student Grant Programs: This one page document provides basic information on federal education grants for the 2017-2018 school year.

Department of Education's Factsheet on Federal Student Aid and Homeless Youth: This document provides information on how to access federal student aid while homeless or at risk of becoming homeless. It also provides you with information on accessing affordable housing while pursuing higher education.

The Guide to Completing the 2018-19 FAFSA: This guide provides you with detailed information on how to answer all 108 questions on the FAFSA.

Consumer Financial Protection Bureau Repay Student Debt Tool: This website allows you to provide information on your basic student debt situation and gives you advice on repayment in return.

Ask Heather Jarvis Forum: Heather Jarvis, a previous member of the Student Debt program at Equal Justice Works, is a student debt consultant. Her website, AskHeatherJarvis.com, has a useful forum where you can have your debt questions answered by fellow members (and maybe even Jarvis herself).

Income-Driven Repayment (IDR) Plan Request Form:This is a blank version of the paper form used to initially enroll in an IDR plan or switch between IDR plans.

Stay Connected to Equal Justice Works for News, Updates and Tips!

Educational debt relief options and procedures are changing rapidly. Join our mailing list to receive important updates on educational debt, including regulatory and programmatic changes, news, new forms of relief, upcoming events, and webinars.

Follow us on Twitter and like us on Facebook for breaking news and tips:

@EJW_org #StudentDebtHelp

Facebook.com/EqualJusticeWorks/

LinkedIn.com/company/equal-justice-works

APPENDIX B

Frequently Asked Questions

WE RECEIVE MANY QUESTIONS ABOUT EDUCATIONAL DEBT RELIEF PROGRAMS. THOSE WE RECEIVE MOST FREQUENTLY ARE ABOUT PUBLIC SERVICE LOAN FORGIVENESS AND INCOME-DRIVEN REPAYMENT (IDR) PLANS.

HERE ARE SOME ANSWERS TO HELP YOU GET STARTED. BE SURE TO REGISTER FOR A FREE INFORMATIONAL WEBINAR TO LEARN MORE ABOUT EDUCATIONAL DEBT RELIEF PROGRAMS. FOR MORE INFORMATION ON INCOME-DRIVEN REPAYMENT (IDR) PLANS (INCLUDING THE NEW PAY AS YOU EARN (PAYE) PLAN AND PUBLIC SERVICE LOAN FORGIVENESS (PSLF), GO TO CHAPTER 3: INCOME-DRIVEN REPAYMENT PLANS AND CHAPTER 4: PUBLIC SERVICE LOAN FORGIVENESS.

Will Public Service Loan Forgiveness and IDR plans be around for the foreseeable future or will they be eliminated by Congress?

Unlike many government programs, these are not subject to appropriations or the budgetary process. It would take an act of Congress to take Public Service Loan Forgiveness and/or the IDR plans away from borrowers. However, the PAYE, REPAYE, and ICR plans were created by administrative rule-making and are a bit easier to remove or alter. In 2017 and 2018, Congress began working on Higher Education Reauthorization.

At the time this was written, no legislation had passed impacting Public Service Loan Forgiveness, but the House Education and the Workforce Committee did move the PROSPER Act out of committee. This bill would eliminate Public Service Loan Forgiveness by requiring all borrowers to take out a new type of federal loan that is not eligible for Public Service Loan Forgiveness. This would not impact individuals who have already graduated and are repaying their loans, as long as they do not consolidate into the new loan type. It would also not impact current students completing a course of study. It would impact students pursuing a new course of study or students not graduating by 2024. To keep up to date on what is happening, sign up for our newsletter and student debt updates.

Will the loan cancellation provisions under the IDR plans mean that I will be left paying a high tax bill?

It is true that the amount of unpaid loan principal and interest cancelled will result in the Department of Education submitting a Form 1099-C: Cancellation of Debt to the IRS during the tax year that the loan balance is cancelled. While this amount is technically taxable as gross income, there does exist a number of special rules for cancelled debt amounts that do not exist for typical gross income.

The most notable special rule is the **insolvency exclusion**. This rule lowers the amount of cancelled loan debt on which you owe taxes by the amount your debts exceeds the market value of your assets immediately prior to having the outstanding loan balance cancelled. Liabilities include outstanding student loan balances (including the amount eligible for cancellation), mortgages, car loans, medical bills, credit card debt, and back taxes. Assets include bank account balances, cars, computers, tools, stocks, real property and bonds. See Publication 4681 (2016) for more information.

For example, Jane is eligible to have $100,000 in outstanding student loans cancelled under REPAYE. Jane has an additional $50,000 in liabilities from her mortgage. Jane has assets of $45,000. The difference between Jane's total liabilities ($150,000) and her assets ($45,000) is $105,000. Because $105,000 is larger than $100,000, Jane will pay no taxes on her cancelled student loan debt.

Outside of exceptions for taxes paid on cancelled debts, the IRS, upon request, offers generous repayment terms for taxes that cannot be paid in the year they are due. An individual automatically qualifies for an interest free 72-month installment agreement. For those who cannot accommodate repayment of their tax burden in 72 months, they may qualify for an Offer in Compromise (OIC). An OIC allows individuals, particularly those with low amounts of assets or low levels of income, to have a portion of their tax liability forgiven (up to 80-90 percent). For further information on OICs, contact a tax professional and see Form 656 Booklet.

Note: Free help is available for those concerned about the potential tax consequences of their cancelled student debt. The Taxpayer Advocate Service is an independent organization of tax experts that can help you resolve present or future financial problems caused by tax liability. You can find local members of the Taxpayer Advocate Service by going to taxpayeradvocate.irs.gov or calling 1-877-777-4778. Additionally, free (or reduced fee) help may available via a Low Income Tax Clinic. These clinics provide professional representation on tax collection disputes, appeals, hearings etc. You can find a local clinic by going to taxpayeradvocate.irs.gov/about/litc, or checking Publication 4134, Low Income Tax Payer Clinic List.

Do I have to choose between my Loan Repayment Assistance Program and the federal programs?

No. We do not know of a LRAP that prohibits participation in income-driven repayment (IDR) plans and/or Public Service Loan Forgiveness (PSLF). In fact, most LRAPs work in conjunction with IDR and PSLF. However, some LRAPs may require you to enroll in an IDR plan or limit the amount it gives you to the amount you would be required to pay in an IDR plan.

Can I participate in PSLF with defaulted loans?

No. Monthly payments made on defaulted Federal Direct loans do not count toward the 120 payments necessary to earn PSLF. However, you can get your loans out of default by consolidating defaulted loans into a Direct Consolidation loan or participating in loan rehabilitation. See the section on "Curing Default" within this e-book for further information.

Can I receive loan cancellation on Parent PLUS loans?

Yes. Parent PLUS loans can be consolidated into a Direct Consolidation loan and then repaid under ICR. This would allow for loan cancellation after 25 years per ICR's loan cancellation provisions.

Which student loans are eligible for PSLF?

Only Federal Direct Loans are eligible for PSLF. This includes Federal Direct Subsidized and Unsubsidized Stafford Loans, Federal Direct Grad PLUS Loans and Federal Direct Consolidation Loans.

Parent PLUS Loans are eligible for PSLF but there are additional factors to consider. The first factor is eligibility for PSLF, which is dependent on the parent's employment, not on that of the dependent student for whom the loans were borrowed. Second, a Parent PLUS loan must first be consolidated into a Direct Consolidation loan and repaid under ICR in order for payments to qualify toward PSLF.

Which student loans are NOT eligible for PSLF?

- Federal Family Education Loans (FFEL) are not eligible for Public Service Loan Forgiveness. Borrowers may consolidate their FFEL Loans into a Direct Consolidation Loan if they intend to work toward PSLF.
- Federal Perkins Loans are only eligible as part of a Federal Direct Consolidation Loan. You should always consult with the school from which you obtained a Perkins Loan before consolidating it because Perkins Loans include their own cancellation provisions. These provisions will be lost if you consolidate your Perkins Loan.
- Loans made by a state or private lender that are not guaranteed by the federal government are never eligible.

When can I initially enroll in the IBR, ICR, PAYE, or REPAYE plans?

- Prior to entering repayment, you may enroll in the IBR, ICR, PAYE, or REPAYE plans by selecting them on the Income-Driven Repayment (IDR) Plan Request form and selecting "I want to enter an income driven plan" as the reason you are submitting the form. You will be required to verify your income by providing your loan servicer with your most recent tax return or alternative documentation (pay stubs or letter from an employer).
- If you are already in repayment, you can switch from a balance based plan to an IDR plan by submitting an Income-Driven Repayment (IDR) Plan Request form and selecting "I want to enter an income-driven plan" as the reason you are submitting the form. You will be required to verify your income by providing your loan servicer with your most recent tax return or alternative documentation (pay stubs or letter from an employer).
- If you are already in an IDR plan, you can switch to another one by submitting a new Income-Driven Repayment (IDR) Plan Request formand selecting "I want to change to a different income-driven plan" as the reason you are submitting the form. You will be required to verify your income by providing your loan servicer with your most recent tax return or alternative documentation (pay stubs or letter from an employer).

Q: When can I apply for PSLF?

You may only apply for final forgiveness after you have made all 120 qualifying payments on your eligible Federal Direct Loan(s) while working in qualifying employment. In the meantime, keep track of your qualifying employment by submitting the Department of Education's Employment Certification Form annually, and retaining pay stubs, W-2s and any other supporting documentation.

REMINDER: The first class of borrowers became eligible for PSLF in October of 2017. An application is now available. For more information, including upcoming deadlines and changes to the application process, sign up for our email list.

How can I benefit from combining IDR plans, LRAPs, and PSLF?

To utilize an IDR plan in conjunction with PSLF and an LRAP:

1. Enroll in the IBR, PAYE, REPAYE, or ICR plan as soon as you enter repayment (or two months prior, if possible) on your eligible Federal Direct Loans.
2. Apply for LRAP funding, as soon as it is feasible.
3. Use LRAP funds to contribute to monthly payments that are due under the IDR plan you have chosen.
4. Once you have made 120 qualifying payments on Federal Direct Loans while working in qualifying employment, apply for forgiveness from the Department of Education.
5. Earn debt forgiveness!

Example: Peter graduates with $50,000 in eligible federal loans. His loans have a 6.8 percent interest rate and he is single. Peter begins qualifying employment with an adjusted gross income of $35,000. Since he is single, his household size is 1. Peter would pay the following under the various IDR plans:

- **REPAYE:** $143 with the eventual rise to $271
- **PAYE:** $143 with the eventual rise to $271
- **ICR:** $385 to start with the eventual rise to $456
- **IBR (at 15 percent):** $215 to start with the eventual rise $406

Note: The above example assume that Peter will receive a five percent pay increase annually and never increases his household size. However, an increase in Peter's salary will likely increase discretionary income, and thus increase monthly payment amounts, while an increase in household size would move Peter into a different federal poverty guideline amount and thus likely lower Peter's discretionary income and monthly payment amounts.

Peter chooses to enroll in REPAYE. Peter then applies for and receives LRAP funds from his law school that covers the full amount of his payment due under REPAYE. Peter continues in the LRAP while making the 120 payments required for PSLF. Peter then earns $60,000 in forgiveness via PSLF having paid no money on his federal loans.

In this example, combining IDR plans, PSLF, and LRAPs can prove to be a very beneficial financial decision.

I am married and repaying loans under an IDR plan. Should I file taxes as married-separately or married-jointly?

This answer varies for everyone. It is best to explore the pros and cons based on your individual financial situation. Filing married-jointly is the only way a married couple can take advantage of tax breaks like student loan interest deductions, dependent care tax credits, and education tax credits, such as the American Opportunity Credit. Failure to receive these tax breaks can significantly increase a married couple's tax liability.

Filing married-separately means that under the IBR, PAYE and ICR plans, only the borrower's adjusted gross income (AGI) and federal student loan debt is used to calculate monthly payments and will determine whether the borrower has the partial financial hardship required by the IBR and PAYE plans.

If you file married-jointly, your spouse's AGI and federal student debt is added to your AGI and debt to get the total AGI and debt used for determining IDR plan payments amounts and whether you have the partial financial hardship required by the PAYE and IBR plans. Thus, if you file married-jointly with a high earning and low eligible debt spouse, you may not possess the partial financial hardship necessary to repay your loans under the IBR and PAYE plans and/or you may have much higher monthly payments.

Also, remember that REPAYE does not require a partial financial hardship, but always uses your spouses' AGI, regardless of how you file, when determining your monthly payment amounts.

What is a "qualifying loan payment" for Public Service Loan Forgiveness?

A qualifying payment is the full monthly amount due on a Federal Direct Loan (including a Federal Direct Consolidation Loan) while enrolled in standard qualifying repayment plan. This payment must be made by the due date or within fifteen days thereafter.

Q: If my monthly payment under an income-driven repayment plan is zero, does each month during which my calculated payment is zero count toward the required 120 payments for PSLF?

Yes. Any month when your calculated payment on your Federal Direct Loans under an income-driven repayment plan is zero will count toward your required 120 monthly payments as long as you are working in qualifying employment at the time these zero-dollar payments are due.

When can I begin counting my time in public service toward forgiveness?

You may count your public service employment (and payments) beginning Oct. 1, 2007. But remember, only qualifying payments made on Federal Direct Loans count toward your required 120 monthly payments, and only those Federal Direct Loans are eligible for forgiveness.

Will the Department of Education track my qualifying employment and payments while I am working toward meeting the 120 required payments for Public Service Loan Forgiveness (PSLF)?

The Department of Education's loan servicer will track your employment only if you submit the Public Service Loan Forgiveness (PSLF): Employment Certification Form. The submission of this form for every employer allows you to receive an initial determination on how many payments have been made so far toward PSLF and how many more payments must be made.

What if I submit the Public Service Loan Forgiveness (PSLF) Employment Certification Form but the written determination of payments and/or eligible employment from the Department of Education is wrong?

Currently, there is no official appeals process. If you cannot work out the issue with your servicer, you can file a complaint with the Federal Student Aid (FSA) Feedback System. If you submit a complaint and don't agree with, the response, contact the Federal Student Aid Ombudsman Group. The Ombudsman Group is a neutral, informal, and confidential resource to help resolve disputes about your federal student aid. It is your responsibility to provide the evidence necessary to show why the errors you claim in the written determination(s) are valid and warrant correction.

Note: The American Bar Association (ABA) is currently suing the Department of Education over Public Service Loan Forgiveness. One of the things the ABA is requesting is that the Department of Education develop a formal appeals process. You can read the full complaint here.

Do the 120 payments have to be consecutive to qualify for Public Service Loan Forgiveness?

No. You must make 120 separate, on-time, full monthly payments while you are employed full-time by a qualifying public service organization, but the payments do not have to be consecutive.

If I have been making payments on my Federal Direct Loans since before October 2007, will these payments count toward the 120 payments for Public Service Loan Forgiveness?

No. Under the law, only payments made after Oct. 1, 2007 count toward the required 120 payments for PSLF.

If I'm volunteering at a qualifying employer but I receive my income from another source (a non-qualifying employer) will my payments count toward PSLF?

No. Unfortunately, while you may be providing important services to a qualifying employer, the payments made during that time will not count toward PSLF unless they pay you and consider you a full-time employee.

Does my work for an international organization count for PSLF?

Unfortunately, no. If you are working full-time for a U.S.-based non-profit and working abroad, this will be qualifying employment. However, if you are working for a foreign nonprofit or an international organization, this is not qualifying employment for purposes of PSLF.

Can a FFEL Spousal Consolidation Loan ever qualify for Public Service Loan Forgiveness?

Unfortunately, no. While individual FFEL Consolidation Loans can be converted into a Direct Consolidation Loan, and thus qualify for Public Service Loan Forgiveness, Congress carved out an exception to this option for FFEL Spousal Consolidation Loans. However, as those with FFEL Spousal Consolidation Loans qualify for repayment under IBR, an option for loan forgiveness can still be received via the cancellation provisions under this repayment plan. See Chapter 3 for more information.

Does switching between IDR plans restart the clock for the amount of qualifying payments you have made toward PSLF?

No. You can add payments made under any qualifying repayment plan together to get to the 120 required for PSLF. For example, if Jane made 40 qualifying payments under PAYE, then switched to REPAYE and made 34 more payments, Jane will have made 74 payments toward PSLF.

Is there an application to receive loan cancellation under the IDR plans?

Unlike Public Service Loan Forgiveness, there is no formal application required in order to receive loan cancellation under the IDR plans. The laws simply state that once all the eligible payments are made under the chosen IDR plan, "the Secretary [of Education] cancels any outstanding balance of principal and accrued interest…."

I am currently enrolled in a loan rehabilitation program to cure the default status on my federal loans. Do payments made while in a loan rehabilitation program count toward PSLF?

No. These payments do not count toward the 120 required for PSLF. However, all future qualifying payments made after the completion of the loan rehabilitation program will count toward PSLF.

I am unemployed and my current payment under my IDR plan is $0 per month. How does this affect my progression toward PSLF?

Unfortunately, as you are not working full-time for a qualifying employer, you cannot make qualifying payments.

REMINDER: A qualifying payment for PSLF is (1) a payment made after October 1, 2007, (2) on Federal Direct Loans, (3) for the full monthly amount due, (4) under an IDR plan, Standard 10-year payment plan, or other repayment plan with an amount equivalent to the amount under the Standard 10-year payment plan, (5) made while employed full-time, (6) for a qualifying public service employer, (7) no more than 15 days after the due date.

Once I fill out my FAFSA and receive acknowledgement of the financial aid I am eligible for, how do I access my aid?

The aid will be provided directly to you by your law school. Usually, the school will apply financial aid to the cost of your law school tuition and fees, and you will receive a refund for the remainder.

What is a "borrower's defense to repayment" and how might it affect my federal loans?

A borrower's defense to repayment is a legal defense that allows a borrower to (1) avoid repaying their federal loans and (2) receive a refund for all monies previously paid on federal loans. A borrower has a defense if the borrower received federal loans from a university that made a substantial misrepresentation that caused the student to take out the federal loan(s) in order to attend the university. Only federal loans used to actually pay for the university can be forgiven via the defense.

A substantial misrepresentation is "any misrepresentation on which the person to whom it was made could reasonably be expected to rely, or has reasonably relied, to that person's detriment." A substantial misrepresentation can include misleading statements about (1) the likelihood of employment after graduation, (2) graduation rates, (3) average income after graduation, (4) the availability of career services assistance, (5) availability of externships, (6) qualifications of teachers, (7) instructional methods and (8) program costs. This list is not exhaustive. The borrower who believes they can prove a defense to repayment can file an application with the Secretary of Education. This application can be found here.

Upon receipt of the application, the Department of Education places the loans at issue in a forbearance status and/or stops any and all collection activity. A decision on the application is made within thirty days. If the application is successful, all or part of the federal loans at issue are forgiven and/or any payments made on those loans are returned. If the application is denied, the forbearance status is lifted, collection activity can resume, accrued interest is capitalized, and the borrower must assume payments on the loans immediately.

The law school I previously attended has now closed. Do I still have to repay the federal loans used to pay for that program at the closed school?

Yes, unless you withdrew from the program and then the school closed within 120 days. In that case, you can receive a discharge of all federal loans used to pay for the program. Otherwise, you are required to keep making your payments.

Note: You can also receive a discharge of your federal loans if the school closes while you are enrolled or on a leave of absence.

You have mentioned special cancellation provisions for Perkins Loans. Can you tell me about some of those provisions?

Perkins Loans have very generous cancellation provisions. For individuals who qualify, loan cancellation can occur within five years. Typically, the loan cancellation occurs in the following stages:

- First and second year of meeting eligibility requirements: 15 percent of loan amount forgiven each year.
- Third and fourth years of meeting eligibility requirements: 20 percent of loan amount forgiven each year.
- Fifth year of meeting eligibility requirements: thirty percent of loan amount forgiven.

Eligible individuals include:

1. Teachers working in low-income areas;
2. Special education teachers;
3. Math, science, and foreign language teachers;
4. Police officers;
5. Federal public defenders;
6. Active military.

More information about Perkins Loan cancellation can be found here.

Equal Justice Works provides resources to help borrowers. For additional tools and information, please visit EqualJusticeWorks.org. You may also sign up for important updates on educational debt, including regulatory and programmatic changes, news, new forms of relief, upcoming events, and webinars.