



MLaw's Income-Based Debt Management Program

Overview and Details of Michigan's Loan
Repayment Assistance Program (LRAP)

For incoming students Fall 2011

Program Overview

- Assists graduates in paying educational loans if working in lower-paying jobs, regardless of the debt they assume
- Required payments decreased based on income
- Dovetails with and enhances federal income-based repayment plan

Key MLaw Program Benefits

This new program, the result of months of input and calculations by a faculty-led committee, was designed to maximize fairness and eliminate unintended negative consequences. The details of the program may seem complicated, but the result is a set of advantages that benefits a wide range of graduates.

- No out of pocket payment required if income is below GS-11 (General Schedule pay rate for entry-level federal attorneys), currently about \$50,000
- New program covers more graduates in a changing economy than previous LRAP
- Unpaid interest put in a reserve fund for graduate vested after two years
- Available to graduates working in public and private sectors
- Graduates enrolled in the government's income-based repayment plan and working in public interest for 10 years will have the remainder of their federal loans forgiven

U.S. Department of Education Income Based Repayment Plan (IBR)

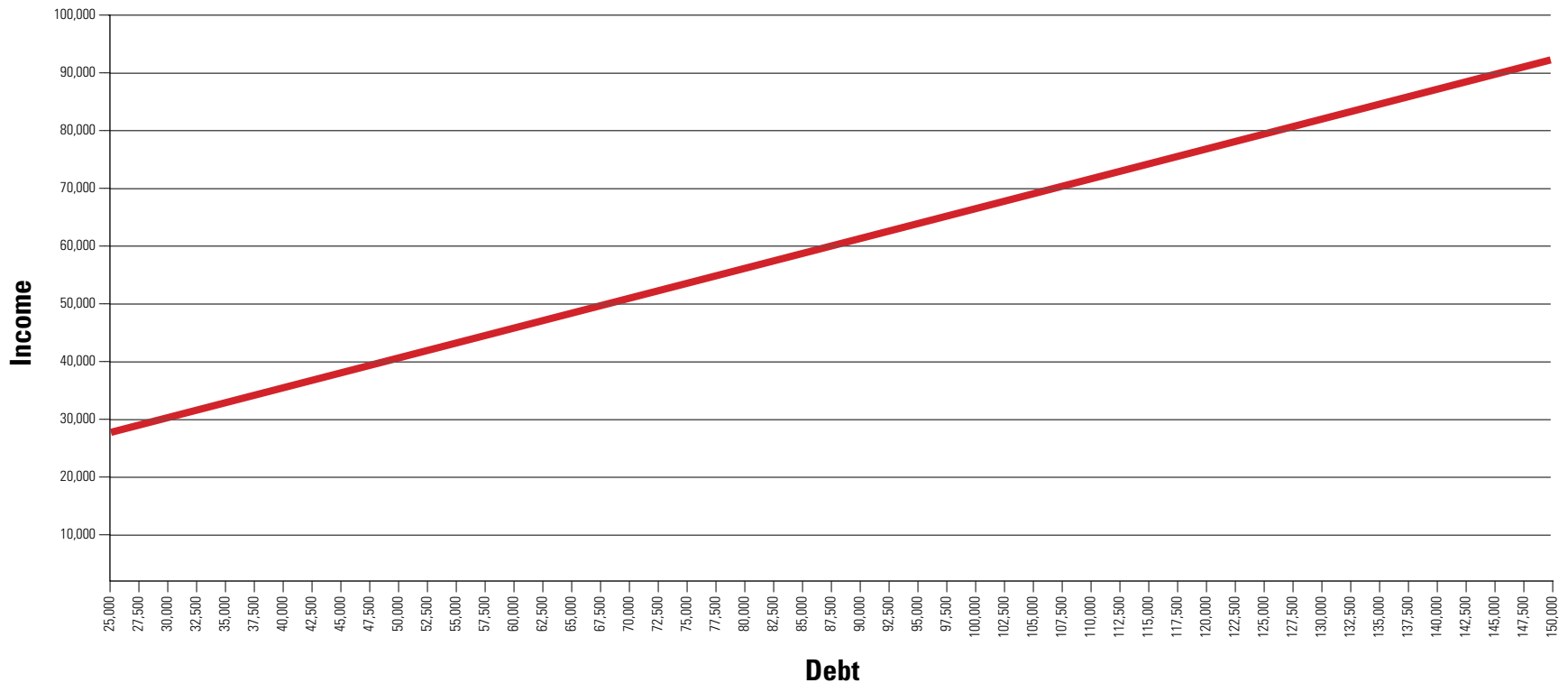
- Income-based
- Most federal loans included (no private, no Perkins [unless consolidated with Direct Loans] or Parent PLUS)
- Forgiveness after 10 years if in government, nonprofit, public interest (must be employed full-time)
- Forgiveness after 25 years if in private-sector job

How Does IBR Work?

- MLaw's program enhances basic IBR
- The lower the graduate's income, the lower the payment
- In many cases, the required payment does not cover the interest on a loan, so the graduate's loan actually increases
- At higher income and lower debt, the loan amount decreases

General trend of what happens to your debt with IBR

above the red line=paying down principal; below the red line=accruing unpaid interest



MLaw Program Requirements

- Enrolled in government's IBR program
- Employed full-time
- Earning a living wage (no volunteer work)
- Law-related (JD required for the job)
- Must have federal debt
- Judicial clerkships and fellowships funded by the Law School excluded

How MLaw's Program Works:

Three-Tier Program

I. \$50,000 or below (GS-11 base)

- Graduates make no payment toward loans
- Michigan Law makes the entire IBR payment
- Michigan pays an amount equal to any unpaid interest into a reserve fund, which graduates can use to pay down interest and lower total debt amount (vested after two years), if they leave the program before earning federal loan forgiveness

II. >\$50,000–\$75,000

- Michigan pays the entire interest payment
- If IBR requires any payment above interest (to pay down principal), graduates pay it

II. Above \$75,000

- Michigan pays part of IBR; graduates pay the rest

Tier I: \$50,000 or below

- SCENARIO: \$45,000 Income
- MLaw pays entire IBR annual payment (blue)
- MLaw puts unpaid interest in a reserve (yellow)

DEBT	ACCRUED INTEREST	REQUIRED IBR PAYMENT	UNPAID INTEREST	PRINCIPAL
\$50K	3,115	4,313	0	1,198
\$75K	5,247	4,313	934	0
\$125K	9,198	4,313	4,885	0

Tier II: >\$50,000–\$75,000

- SCENARIO: \$65,000 Income
- MLaw pays accrued interest (blue)
- MLaw puts unpaid interest in a reserve (yellow)
- Graduate pays principal (pink)

DEBT	ACCRUED INTEREST	REQUIRED IBR PAYMENT	UNPAID INTEREST	PRINCIPAL
\$75K	5,249	7,313	0	2,064
\$125K	9,198	7,313	1,885	0

Tier III: \$75,001– ~ \$90,000

- SCENARIO: \$80,000 income
- MLaw pays partial interest on a decreasing basis (blue)
- Graduate pays the rest plus the principal (pink)

DEBT	ACCRUED INTEREST		REQUIRED IBR PAYMENT	UNPAID INTEREST	PRINCIPAL
	paid by UM	paid by grad			
\$75K	3,280	1,969	9,563	0	4,314
\$125K	5,750	3,447	9,563	0	365

Annual Out-of-Pocket Costs with \$100,000 federal debt

ANNUAL INCOME	OUT-OF-POCKET COST
\$35K	\$0
\$50K	\$0
\$65K	\$90
\$80K	\$6,000

Key Benefit: Reserve Account

- MLaw puts amount of unpaid interest in a reserve account for each eligible participant
- Graduates can request reserve be used to pay down interest and keep debt from growing
- Can only request reserve once, after leaving the program
- Graduates must remain in the program for two full years for the reserve to be vested

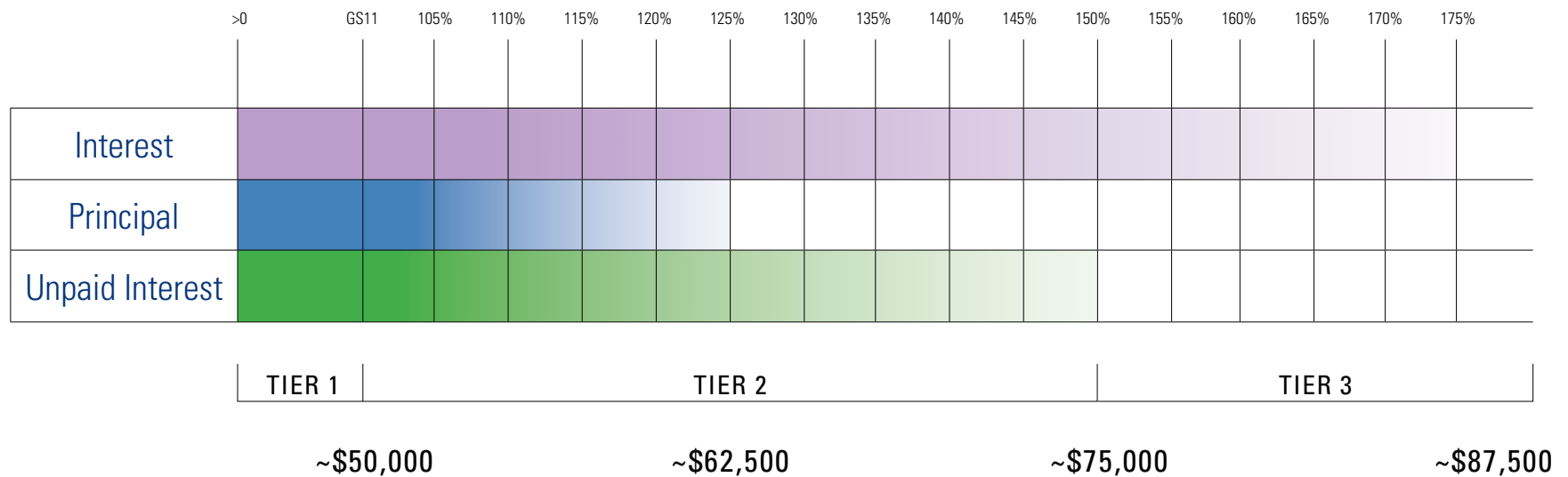
IBR Calculations*

ANNUAL GROSS INCOME	LOAN BALANCE	ACCRUED INTEREST	MONTHLY PAYMENT	UNPAID INTEREST	PRINCIPAL PAYMENT	TOTAL UNPAID INTEREST	MICHIGAN PAYS
\$35,000	\$100,000	\$601	\$234	\$279	\$0	\$279	\$234 (+ \$279 reserve)
\$50,000	\$100,000	\$601	\$421	\$136	\$0	\$136	\$421 (+ \$136 reserve)
\$65,000	\$100,000	\$601	\$609	\$0	\$7	\$0	\$601 (no reserve)
\$80,000	\$100,000	\$601	\$796	\$0	\$194	\$0	\$301 (no reserve)

*Only federal loan payments are included in IBR calculations.

How Much Is Covered?

Solid color represents full coverage, while lighter gradations represent portions of full coverage; salary range noted below chart.



Resources and More Information

- MLaw Financial Aid/LRAP:
www.law.umich.edu/currentstudents/financialaid/loanpayment/Pages/default.aspx
- LRAP FAQ:
www.law.umich.edu/prospectivestudents/admissions/financial/Pages/IncomeBasedDebtManagementProgramFAQ.aspx
- FinAid calculators:
www.finaid.org/calculators
- Federal Student Aid:
www.studentaid.ed.gov