The College Cost Reduction and Access Act of 2007 established, among other things, two new programs that will be of particular interest to graduates going into low paying and public interest jobs. **Income Based Repayment** (Section 203 of the Act) allows borrowers to pay back their federal loans on the basis of their income at the time of repayment. **Loan Forgiveness** (Section 401 of the Act) will forgive federal Direct loans after 120 payments and 10 years of full time employment in the public service sector. It is possible to take advantage of both these programs at the same time, or to elect one or the other option. One option does not either preclude nor exclude another.

INCOME BASED REPAYMENT (IBR)

What is Income-Based Repayment?

As of July 1, 2009, this is an option for paying back federal loans which will be particularly helpful for borrowers with higher debt and lower incomes with "partial financial hardship". The amount the borrower pays back is based upon his/her annual adjusted gross income.

Which loans are included?

Most federally guaranteed student loans are included in this benefit, including all Stafford subsidized, unsubsidized, consolidated, and GradPLUS loans. Parent PLUS loans, private loans, and loans from outside parties (such as parents) are not included.

How does it work?

The loan payment for the borrower will be capped at 15% of the borrower's discretionary income, where discretionary income is defined as the Adjusted Gross Income (AGI) for the student (or student and spouse if filing jointly) minus 150% of the poverty level applicable to the borrower's family for that year. In math terms, the equation is:

$$\text{AGI} - (\text{Poverty Level} \times 1.5) \times .15$$

If we take an example of a single borrower with a $40,000 income and $90,000 debt:

AGI: $40,000
Poverty Level: $10,830

$40,000-(10830 x 1.5) x .15
=($40,000 – 16,245) x .15
=$23,755 x .15
= $3563.25 -- the maximum annual amount the borrower would have to repay, which translates into $296.94 per month. This contrasts sharply with the standard 10-year repayment plan where the borrower would have to pay $1,036 per month on a 6.8% fixed interest rate loan.

The Department of Education's website provides an online calculator (scroll down to the bottom of the page) to help determine if you might be eligible for IBR. The calculator will also give you an estimated payment amount based on your adjusted gross income and family size.

How long do I have to stay in the program?

There is no time you must stay in the program – you can switch out of it and choose to enter into a different repayment plan at any point. But if you remain in this plan for 25 years, any unpaid principal and interest will be forgiven. (Forgiveness may be a taxable event.) Note that lowering monthly payments extends the life of the loan and ultimately how much is paid over time. If the borrower is still in IBR after 25 years, the government will write off the loan.

What should I worry about?

- First, if you are married and your spouse is earning an income you may want to consider filing Federal tax returns separately, or your spouse's income will be taken into account.
- The cost of the loan will be much higher over the long run if you don't stay in IBR for 25 years. Depending on the amount of your payments, it is possible with IBR that your monthly payments would not even cover the interest that is accruing on the loan. Therefore, even though payments are made, your debt could be rising.
- Only loans backed by the federal government are covered by this program, so you may not want to borrow alternative loans from other sources than the GradPLUS loan, which is covered.

What should I do now?

If you are a current student and definitely plan to take advantage of this plan, do not borrow loans from any lender other than the federal government. Private loans, credit card advances or loans from individuals will not be covered by this program.

Are there any employment restrictions?

No. This option might be particularly helpful for graduates during their clerkship, since Michigan's LRAP program does not cover clerkships.

When can I apply?

Please contact your loan provider for forms and details.

LOAN FORGIVENESS FOR PUBLIC SERVICE EMPLOYEES

What is the Loan Forgiveness for Public Service Employees program?

This is a new program that will allow forgiveness of certain federal loans after 120 months of payments while employed full-time in public service employment. Note that this does not require that you be employed full time in a defined public service job for 120 consecutive months (10 years). This can be elected in conjunction with the IBR program (above), although it is not required to elect both.

Which loans are covered by this program?

Only Direct Loans are covered -- Stafford subsidized and unsubsidized, and GradPLUS loans held by the Direct Loan program. As a University of Michigan student, all the federal loans you borrowed during law school are with Direct Loans, unless you consolidated with another lender. If your loans were never held by or are no longer held by the Direct Loan program, you should be able to reconsolidate with Direct Loans to be eligible. Private loans are **not** eligible for coverage by this program.

What jobs are considered public service jobs for purposes of this program?

As defined by the regulations: A full-time job in emergency management, government, military service, public safety, law enforcement, public health, public education (including early childhood education), social work in a public child or family service agency, **public interest law services (including prosecution or public defense or legal advocacy in low-income communities at a nonprofit organization)**, public child care, public service for individuals with disabilities, public service for the elderly, public library sciences, school-based library sciences and other school-based services, or at an organization that is described in section 501(c)(3) of the Internal Revenue Code of 1986 and exempt from taxation under section 501(a) of such Code; or Teaching as a full-time faculty member at a Tribal College or University as defined in section 316(b) and other faculty teaching in high-needs areas, as determined by the Secretary.

How does it work?

In order to receive forgiveness a borrower must be employed full-time in a covered public service job and must have made payments during the time of qualifying employment for 120 months, or 10 years, beginning on or after October 1, 2007. The 120 months do not need to be consecutive, but you must be employed in the public service eligible job at the time you apply for your loans to be forgiven. Any time worked in a public service eligible job and payments made prior to October 1, 2007 will not be applied towards the 120 payments

What if I don't plan to remain in an eligible job for 10 years over the span of my career?

This is an all-or-nothing plan. If you do not fulfill 120 months, none of your loans are forgiven by this program.

What kind of payment plan do I need to have my loans in to be eligible?

You can have your loans in:

Income Contingent Plan
Income-based Repayment Plan
Standard 10-year repayment plan

What should I worry about?

- If you consolidated your loans with a lender other than Direct Loans, you will have to re-consolidate with Direct Loans in order to be eligible for this benefit.
- If you place your loans into a greater than ten-year repayment plan and then do not stay in your eligible job making eligible payments for 120 months, you will receive no forgiveness through the program, and your loan will be more expensive than if you had kept it at the 10-year plan. For example, if you choose the IBR option, it is possible that your monthly payments would not even cover the interest that is accruing on the loan. Therefore, even though payments are made, your debt could be increasing, instead of decreasing as one would hope.

How do I apply for this program?

Since the earliest a loan will be forgiven will be 2017, there are no details on it at this time, but we will update this FAQ as new developments arise.

How will this work with the Law School's Debt Management Program?

We will expect you to take advantage of this program by entering into an eligible repayment plan, and taking full advantage of that before using debt management funds. If you choose not to use an eligible plan, we will calculate your eligibility as if you had chosen that plan.

I want more information. Where can I look?

The Department of Education's own online resource
http://studentaid.ed.gov/repay-loans/understand/plans/income-based

Equal Justice Works
http://www.equaljusticeworks.org/ed-debt

User-friendly nonprofit site offers email updates for latest information
http://www.ibrinfo.org/