

## **The Federal Student Loan Forgiveness Law: The College Cost Reduction and Access Act of 2007**

Federal legislation signed into law this fall has significantly benefited public service lawyers, as highlighted in the following summary of the new law, drawn from Equal Justice Work materials.

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

- Lowers monthly student loan payments on federally guaranteed student loans (Income Based Repayment or IBR)
- Cancels remaining debt after 10 years of income-based repayment (public service forgiveness)

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

Congress created a new repayment program—income based repayment (IBR), which significantly reduces monthly payments for all high debt/low income borrowers.

**Here are some key provisions of the new law, presented in a question and answer format:**

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

Annual educational debt payments under IBR are capped at 15% of discretionary income (defined as adjusted gross income minus 150% of the poverty level for the borrower's family size).

**Example:** Jane Justice owes \$100,000 in qualifying debt at 6.8% interest and takes a job paying \$40,000 to start.

She elects the income-based repayment (IBR) plan. In her first year, **Jane's monthly payments under IBR are \$309 (as opposed to \$1151 under standard ten-year repayment).**

As Jane gets annual salary increases of 5%, her monthly payments under IBR gradually rise, until in year 10 her monthly payments are \$526.

#### **How does the public service loan forgiveness work?**

Congress created accelerated loan forgiveness for public service employees—if a borrower elects IBR and makes ten years of payments while engaged in full-time public service, the unpaid balance is forgiven by the federal government.

**Example:** Jane Justice started out owing \$100,000 in qualifying debt at 6.8% interest and took a full-time public service job paying \$40,000 to start with annual increases of 5%. Jane stayed in public service and paid \$49,132 over 10 years under the IBR plan. **The federal government cancels \$118,868, the principle and interest remaining**

### **Which student loans are eligible for IBR and public service forgiveness?**

All federal direct loans and federally guaranteed loans are eligible including:

- Federal Perkins Loans, subsidized and unsubsidized Federal Stafford Loans, Federal Grad PLUS loans and Federal Direct Consolidation Loans.

### **Which student loans are not eligible?**

Loans made by a state or private lender and not guaranteed by the federal government are never eligible. Also, Parent PLUS loans, as opposed to Grad PLUS loans, are not eligible.

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

IBR goes into effect July 1, 2009. Therefore, members of the Class of 2009 will be able to elect IBR and start working toward forgiveness within two months of graduation. People who graduated or will graduate before IBR takes effect will have to wait to elect IBR, but may begin counting time in public service sooner. Borrowers who have federal direct loans (including federal direct consolidation loans) may elect "income-contingent" repayment (ICR) immediately and switch to IBR on July 1, 2009. Monthly payments under ICR are higher than under IBR but still much lower than under standard repayment. Borrowers who have federally guaranteed loans may consolidate into the federal direct program and elect ICR while waiting to switch into IBR in 2009. In any event, borrowers who have federal direct loans or who have consolidated into federal direct consolidation loans may begin counting time in public service beginning October 1, 2007. Some restrictions apply to borrowers who need to consolidate to use this program but have already consolidated their loans. Such borrowers should be sure to consult the law review article cited below.

### **Where can I get more information?**

Professor Philip Schrag's Law Review article describing how the College Cost Reduction and Access Act will apply:

<http://www.law.georgetown.edu/news/documents/Forgiveness.pdf>

Student loan information: [www.finaid.org](http://www.finaid.org)

- IBR monthly repayment calculator:  
<http://www.finaid.org/calculators/ibr.phtml>
- ICR monthly repayment calculator:  
<http://www.finaid.org/calculators/icr.phtml>

Federal direct consolidation loan information and applications:

<http://loanconsolidation.ed.gov/>

A more complete piece on the new law can be found at

<http://www.equaljusticeworks.org/resource/ccraa>