Managing Student Debt for Lawyers
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Executive Director, Law School Transparency
• **Mission**: to make entry to the legal profession more transparent, affordable, and fair

• **What We Do**
  • Policy
  • Tools for Prelaw and Current Law Students
www.LawSchoolTransparency.com

www.data.LawSchoolTransparency.com

www.LSTreports.com

www.LSTradio.com
Federal Student Loan Basics
Types of Federal Student Loans

• Direct (formerly Stafford)
  • Annual Max: $20,500

• Grad Plus
  • Annual Max: COA - $20,500 – Other Financial Aid

• Federal Family Education Loan (FFEL)
  • Loans originated prior to July 1, 2010
Master Promissory Note (MPN)

• One for Direct loans; One for Grad Plus loans
• View at StudentLoans.gov
• Key terms and conditions:
  • Interest calculations and capitalization
  • Repayment options and management options
  • Discharge, cancelation, and loan forgiveness
  • Military protections
Interest Rates

- Fixed interest rates and tax deductible interest

<table>
<thead>
<tr>
<th>Year</th>
<th>Direct Loans</th>
<th>Grad Plus Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>6.21%</td>
<td>7.21%</td>
</tr>
<tr>
<td>2015-16</td>
<td>5.84%</td>
<td>6.84%</td>
</tr>
<tr>
<td>2016-17</td>
<td>5.31%</td>
<td>6.31%</td>
</tr>
<tr>
<td>2017-18</td>
<td>6.00%</td>
<td>7.00%</td>
</tr>
</tbody>
</table>

- Auto-withdrawal interest rate reduction of .25%
Interest Rates

• Daily interest from day one
  • 5.84% / 365 = ~ 0.016% per day
  • $10,250 * 0.016% = $1.64 per day

• Capitalization
Interest Rates in Action

• 2018 graduate (May 6, 2018)
  • $10,250 Direct Loan @ 5.84% disbursed Aug. 6, 2015
• 3 years 3 months (1187 days) until first payment
• \((5.84\% / 365) \times 1187 \times $10,250 = $1,946.68\) of interest
• $12,196.68 capitalized loan principal
Capitalization Triggers

• Leaving Grace Period
  • $12,196.68 owed at repayment is now your loan principal, as opposed to $10,250
  • Can’t avoid this trigger

• After forbearance or deferment period, leaving income-driven repayment (IDR), failure to update income for IDR

• Loan consolidation
Loan Consolidation

• Can increase through standard repayment period (10 years) through consolidation
• New weighted interest rate
• Unpaid interest capitalizes
• New MPN
Federal: Loan Consolidation Considerations

• Lower payments, but longer term + more lifetime paid
• Higher interest payment from new principal, assuming unpaid interest
• Can take you out of default
• Required to take advantage of IDR and Public Student Loan Forgiveness (PSLF) if you have FFEL loans
• Restarts the clock on PSLF and other forgiveness programs
Private: Loan Consolidation Considerations

• Private consolidation providers, e.g. SoFi
• You may lose some or all of the protections you want or need, including PSLF and other forgiveness programs
• You may also get a lower interest rate, which would lower your monthly payment without changing your repayment period, thus reducing the total cost of your loan to you
When You Don’t Pay
Delinquency and Default

- Day 0: Payment Due
- Day 1: Loan Delinquent
- Day 91: Delinquency reported to major credit bureaus
- Day 271: Loan Default
- Default: the government can seize tax refunds and garnish your wages *without a court order.*
Curing Default

1. Pay Unpaid Balances
2. Consolidate Your Loans
3. Loan Rehabilitation
   • Agreement with the U.S. Department of Education
   • Only once during life of the loan
4. Discharge in Bankruptcy
   • Talk to a lawyer
Deferment and Forbearance

• Temporarily stops or reduces payments
• Not automatic, but submit a request with loan servicer
• Can cure delinquency but not default
• Loan interest continues to accrue and capitalizes at the end
Deferment

• **Qualification**: ½ time in school; loan rehab; unemployed; certain military service; Peace Corps; economic hardship

• Available up to 3 years total throughout life of loan for the unemployed

• Available up to 3 years total throughout life of the loan for those in Peace Corps or those facing economic hardship
Forbearance

- **Qualification**: if you do not qualify for deferment
- **Discretionary** – up to the loan servicer
  - Financial hardship, natural disaster; illness
- **Mandatory** – statutory
  - Medical or dental residency program
  - Monthly payment > 20% of gross income
  - Americorps, Peace Corps, active National Guard
- No time limits, but interest continues to accrue
Managing Repayment
Balance-Based Repayment Plans

• Standard
  • 10 years, no unpaid interest

• Graduated
  • 10 years, no unpaid interest
  • Start slow, increase over time
Income-Driven Repayment Plans

- IBR
- IBR for New Borrowers
- PAYE
- REPAYE
- ICR
Income-Driven Repayment Plans

- Monthly payment is based on your discretionary income
  - Adjusted Gross Income – (1.5 x Poverty Guideline)
  - 2018 NC Resident, 1-Person Household
    - 1.5 x $12,140 = $18,210
    - Discretionary Income = AGI - $18,210
  - More income = larger payment
  - Larger household = smaller payment
  - Loan balance canceled after a period of time (if not paid)

- No employer or employment restrictions
Income-Driven Repayment Plans

IBR  IBR for New Borrowers  PAYE  REPAYE  ICR

• Eligibility
• Payments
• Taxable Forgiveness
• Marriage Penalty
• Secondary Payment Cap
<table>
<thead>
<tr>
<th>Repayment Plan</th>
<th>Eligibility</th>
<th>Payments</th>
<th>Taxable Forgiveness</th>
<th>Marriage Penalty</th>
<th>Secondary Payment Cap</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBR</td>
<td>FFEL Loans</td>
<td>15% of discretionary income</td>
<td>25 years</td>
<td>NO</td>
<td>10-year Standard Repayment Plan amount at time of entering repayment</td>
</tr>
<tr>
<td>IBR for “new” Borrowers</td>
<td>FFEL Loans Direct Loans Partial Financial Hardship</td>
<td>10% of discretionary income</td>
<td>20 years</td>
<td>NO</td>
<td>10-year Standard Repayment Plan amount at time of entering repayment</td>
</tr>
<tr>
<td>PAYE</td>
<td>Direct Loans</td>
<td>10% of discretionary income</td>
<td>20 years</td>
<td>NO (And interest capitalization limited to 10% of original loan)</td>
<td>10-year Standard Repayment Plan amount at time of entering repayment</td>
</tr>
<tr>
<td>REPAYE</td>
<td>Direct Loans</td>
<td>10% of discretionary income</td>
<td>20 years (undergrad loans)</td>
<td>YES (But the government pays $1 of the interest that accrues on all your loans)</td>
<td>NO (may exceed the 10-year Standard Repayment Plan amount)</td>
</tr>
<tr>
<td>ICR</td>
<td>Direct Loans</td>
<td>Up to 20% of discretionary income</td>
<td>25 years</td>
<td>NO</td>
<td>NO (may exceed the 10-year Standard Repayment Plan amount)</td>
</tr>
</tbody>
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Search “student loan repayment calculator” and select the result from studentloans.gov to help pick your ideal plan.
IDR Downsides

• Negative Amortization: Interest accrues when your monthly payments don’t cover the monthly interest payment

• Interest Capitalization: When you leave an IDR plan; are on IBR/PAYE and leave partial financial hardship (but you can stay on the plan); fail to complete income recertification in a timely manner

• Longer repayment periods = more paid over the loan’s lifetime
Getting to Zero Balance
Methods

• Repay your loan in full
• Bankruptcy
• Loan cancelation after 20 or 25 years
• Public Service Loan Forgiveness (PSLF)
PSLF

• Loan Eligibility
  • Only Federal Direct, Grad Plus, and Direct Consolidation Loans
• Qualified Employment
  • Full Time + Public Service
• Qualifying Payments
  • 120 payments, which do not need to be consecutive
• Apply with the PSLF application from the Dept. of Education
• Tax-Free Forgiveness
What kind of employer qualifies?

- Federal, state, local, or tribal government in the United States
  - Except members of U.S. Congress (staff okay)
- 501(c)(3) Organization
- Peace Corps or Americorps
- Some other NGOs
  - Definitely Not: for-profit companies; labor unions; partisan political organizations; religious organizations (some exceptions)
- The Education Department has been a mess on this
What kind of plan do I need to be on?

• Standard Repayment Plan
  • Does not make sense because after 10 years (120 payments), you will have repaid your balance in full

• IDR Plans
  • IBR, PAYE, REPAYE, ICR
Questions?