

## Act Promises Law Grads Lower Payments, Less Debt

*By Heather Jarvis*

For years young lawyers have struggled with high student debt, but when the College Cost Reduction and Access Act of 2007 (CCRAA) became effective on July 1, 2008, many lawyers found themselves with new options for lowering or eliminating that debt. The CCRAA offers federal student loan borrowers with high debt relative to income an opportunity to choose lower monthly student loan payments through a new repayment option: Income-Based Repayment (IBR). The CCRAA also created the Public Service Loan Forgiveness program, which offers loan forgiveness after ten years of public service employment.

### **Income-Based Repayment**

IBRinfo.org has a simple calculator that you can use to determine your eligibility for Income-Based Repayment. For most eligible borrowers, except the highest earners, IBR loan payments are less than 10 percent of their yearly income. For example, a typical recent law graduate who owes \$100,000 in federal student loans and earns \$60,000 per year would pay less than \$500 per month under IBR. IBR will also forgive any remaining debt after twenty-five years of qualifying payments!

### **Public Service Loan Forgiveness**

The Public Service Loan Forgiveness program encourages individuals to enter and continue full-time public service employment.

A borrower who makes 120 qualifying monthly loan payments on eligible loans while working in qualifying public service can earn substantial loan forgiveness. Qualifying payments are payments made *after* October 1, 2007. For example, a borrower with average law school student loan debt of about \$100,000 and an average public interest annual salary of about \$40,000 can make payments based on income over a ten-year period and earn more than \$100,000 in tax-free loan forgiveness!

### **What employment qualifies?**

Qualifying public service employment for Public Service Loan Forgiveness is full-time, paid work in:

- the government;
- a 501(c)(3) nonprofit;
- an AmeriCorps or Peace Corps position; or
- for a private “public service organization.”

A *public service organization* is an organization that is funded at least partly by a local, state, federal, or tribal government and that is not organized for profit, a labor union, a partisan political organization, or an organization that is engaged in religious activities.

*Full-time* for most lawyers is an annual average of at least thirty hours per week, unless your employer requires a greater number of hours for full-time status.

### **Which loans are eligible?**

Students borrow federal student loans, such as Stafford loans and GradPLUS loans, from one of two major federal student loan programs: the Federal Family Education Loan (FFEL) Program or the Federal Direct Loan Program. Federal

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student loans from the FFEL Program are issued by private banks and lending institutions, such as Sallie Mae, but are still federal student loans. Federal Direct Loans are federal student loans that are issued directly by the U.S. Department of Education.

Only Federal Direct Loans are eligible for Public Service Loan Forgiveness. Borrowers with FFEL loans must consolidate or reconsolidate into Federal Direct Loans to earn loan forgiveness. Find out what kind of student loans you have using the National Student Loan Data System at [www.nsls.ed.gov](http://www.nsls.ed.gov).

Some students also borrow commercial loans from state or private lenders, which are not eligible for Public Service Loan Forgiveness.

### **Which payments count?**

Borrowers must not choose an extended repayment plan as many have done in the past. Qualifying monthly payments include only those made on time as part of:

- an Income Contingent Repayment plan;
- an Income-Based Repayment plan;
- a Standard Repayment plan based on a *ten-year* repayment schedule; or
- a repayment plan where the monthly amount paid was not less than the monthly amount required under the Standard Repayment plan of ten years.

Most borrowers seeking loan forgiveness will choose Income-Based Repayment.

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

Public Service Loan Forgiveness is not automatic. Borrowers must take specific actions to benefit. Visit [IBRinfo.org](http://IBRinfo.org) for more information. Also, visit [equaljusticeworks.org](http://equaljusticeworks.org) for free tools for pursuing debt relief, including webinars, podcasts, a downloadable checklist, and an interactive forum.

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