PUBLIC SERVICE LOAN REPAYMENT STRATEGIES

Spring 2013

The Good News!

- New loan forgiveness programs
- New income-defined repayment options
- UC Hastings Public Interest Career Assistance Program (PICAP)

A New Federal Loan Forgiveness Program

- Public Service Loan Forgiveness Program (PSLF)

Additional Programs for Prosecutors & Legal Aid Attorneys

Following federal programs are subject to annual federal budget appropriations for funding and awards to be made to eligible borrowers:

- John R. Justice Student Loan Repayment Program
- Civil Legal Assistance Attorney Student Loan Repayment Program

Visit “Equal Justice Works” at: EqualJusticeWorks.org for more information about these two programs.

What is PSLF?

Public Service Loan Forgiveness (PSLF) is a federal program that provides for the forgiveness of any outstanding balance on a Federal Direct Loan once the borrower completes 120 months of qualifying employment/payments (tax-free).
**PSLF**

**Key Points**
- DIRECT Loans only
- Work full-time as a paid employee for an eligible public service organization for 10 years (120 months)
- Repay loans using IBR or PAYE
- For more information, go to: [StudentAid.ed.gov/publicservice](http://StudentAid.ed.gov/publicservice)

**PSLF**

To apply for loan forgiveness:
- Eligible DIRECT Loans cannot be in default, **AND**
- Must have worked full-time for 120 months* in qualifying public service position, **AND**
- Must have made 120 qualifying loan payments on DIRECT Loans during period of qualifying employment.

*Months do not need to be consecutive

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**Eligible Loans**

Following loans are eligible for PSLF:
- Federal DIRECT Sub/Unsub Loans
- Federal DIRECT Grad PLUS Loans
- Federal DIRECT Consolidation Loans

Check your loans at: [NSLDS.ed.gov](http://NSLDS.ed.gov)

FFEL and Federal Perkins Loans must be consolidated (i.e., refinanced) through the Federal Direct Loan Program to be eligible for PSLF. To consolidate loans, go to: [LoanConsolidation.ed.gov](http://LoanConsolidation.ed.gov)

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**NSLDS.ed.gov**

To access, enter:
- SSN
- First two letters of last name
- Birthdate
- Dept. of Ed PIN

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**FFEL vs. Direct**

<table>
<thead>
<tr>
<th>Federal Family Education Loan Program (FFEL)</th>
<th>Federal Direct Loan Program (Direct)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lender was private institution</td>
<td>Lender was U.S. Department of Education (ED)</td>
</tr>
<tr>
<td>FFEL loans can be sold to another entity</td>
<td>Direct loans won't be sold</td>
</tr>
<tr>
<td>Loans may be serviced by lender or 3rd party</td>
<td>Loans are serviced by one of five federal contractors</td>
</tr>
<tr>
<td>FFEL loans sold to Dept. of Education do not become Direct Loans—must be consolidated in Direct Program to be eligible for Public Service Loan Forgiveness</td>
<td>Only Direct Loans are eligible for Public Service Loan Forgiveness</td>
</tr>
</tbody>
</table>

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**Qualifying Employment**

Must be FULL-TIME, paid employee of:
- 501(c)(3) organization exempt from taxation under section 501(a) of the IRS Code of 1986, OR
- Government (federal, state, local, tribal) agency in U.S.

Full-time employment is defined as the greater of:
- 30 hours/week, or
- Employer’s definition of full-time
Qualifying Payments

Payments must be made using:
- Income Based Repayment (IBR)
- Income Contingent Repayment (ICR)
- "Pay As You Earn" Repayment (PAYE)
- Standard Repayment (10-year fixed plan)

OR

- Amount paid each month must be no less than payment based on a 10-year loan period

Potential Pros and Cons

Pros
- Increases financial feasibility of pursuing a public interest/public sector legal career if you have student loan debt
- Portion of eligible federal student loan debt may be forgiven
- Entitlement

Cons
- "All or nothing" benefit; you must put in full 10 years/120 months of qualifying public service employment/loan payments
- Only Direct Loan debt can be forgiven
- Currently no process to confirm eligibility prior to completing 120 months of qualifying employment

NEW for PSLF!

Employment Certification Process

- Complete “Employment Certification for Public Service Loan Forgiveness” form annually OR whenever you change jobs
- Form online at: StudentAid.ed.gov/PublicService
- Submit completed form to: FedLoan Servicing
- FedLoan Servicing will review and process form
- FedLoan Servicing will inform you regarding your current status toward meeting the PSLF requirements
- If you have accumulated eligible months, FedLoan Servicing will become your Direct Loan servicer if not currently servicing your Direct Loans

Suggested Steps to Participate in PSLF

- Consolidate any non-Direct Federal Student Loans in the Federal Direct Loan Program at: LoanConsolidation.ed.gov
- Use IBR or PAYE to repay your Direct loan(s)
- Make 120 payments (on-time) while employed full-time in qualifying public service position(s)
- Keep good records regarding all qualifying employment
- Submit “Employment Certification Form for PSLF” annually
- Apply for PSLF after 120 months of qualifying activity has been completed

Repayment Plans

IBR and PAYE

How do you qualify?

To enter IBR/PAYE, you must have:

PARTIAL FINANCIAL HARDSHIP (PFH)
What is PFH?

Partial financial hardship exists when:

Standard 10-year payment $$$$$ > IBR/PAYE payment $$

PAYE Additional Eligibility Requirements

- Must be a new borrower on or after 10/1/2007
- Must have disbursement of a federal student loan on or after 10/1/2011

IBR and PAYE How is monthly payment calculated?

When PFH exists, payment is based on:

- Household AGI
- Household size
- Federal Poverty Guidelines

“Household AGI”

- Your AGI
- Spouse’s AGI, only if joint federal tax return was filed

NOTE: Household’s eligible debt in PFH determination will include spouse’s eligible debt, if spouse’s AGI is included

“Household Size”

- You
- Spouse
- Dependent children
- Other dependents in household who receive > 50% support from you

Annual amount paid in IBR is 15% of “Discretionary” Income

- Annual IBR payment (15% of "Discretionary" Income)
- Remainder of "Discretionary" Income
- AGI protected to cover basic needs (150% of poverty line)
**Annual amount paid in PAYE is 10% of “Discretionary” Income**

- **Annual PAYE payment**: (10% of “Discretionary” Income)
- **Remainder of “Discretionary” Income**
- **AGI protected to cover basic needs**: (150% of poverty line)

**Sample PAYE Payments 10% Formula**

<table>
<thead>
<tr>
<th>Household AGI</th>
<th>2012 Monthly PFH Payment in 48 states</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HH Size = 1</td>
</tr>
<tr>
<td>$0</td>
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<tr>
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<tr>
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</table>

**Sample IBR Payments 15% Formula**

<table>
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<th>Household AGI</th>
<th>2012 Monthly PFH Payment in 48 states</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HH Size = 1</td>
</tr>
<tr>
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<tr>
<td>$100,000</td>
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</tr>
</tbody>
</table>

**IBR and PAYE Negative Amortization**

- IBR/PAYE payment can be less than accrued interest
- Unpaid interest accrues
  - Unpaid interest accruing on **subsidized** Direct/Stafford Loan debt is waived by government for up to first 3 consecutive years in IBR or PAYE plan
- Debt increases

**Sample Case Study**

You can use this calculator to estimate monthly payments using Income-Based Repayment (IBR) and to estimate the amount of loan forgiveness you might receive from the Public Service Loan Forgiveness Program if you satisfy all of the eligibility requirements.
PSLF – Sample Case (IBR)

<table>
<thead>
<tr>
<th>Assumptions</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligible federal student loan debt</td>
<td>$128,500</td>
</tr>
<tr>
<td>1st year Household Adjusted Gross Income (AGI)</td>
<td>$45,000</td>
</tr>
<tr>
<td>Assumed annual increase in AGI</td>
<td>3%</td>
</tr>
<tr>
<td>Assumed annual increase in poverty guideline</td>
<td>3%</td>
</tr>
<tr>
<td>Assumed AGI in 10th year</td>
<td>$58,715</td>
</tr>
</tbody>
</table>

| IBR Payment Information                         |       |
| IBR monthly payment in 1st month                | $353  |
| IBR monthly payment in 120th month (max)        | $461  |
| Total amount paid in IBR over 10 years          | $48,570 |

| Estimated Loan Forgiveness                      |       |
| Total accrued interest forgiven after 10 years  | $43,618 |
| Total principal forgiven after 10 years         | $128,500 |
| Total amount forgiven after 10 years            | $172,118 |

Calculations made using 2012 federal poverty guidelines and Income-Based Repayment Calculator (15% Version) at: FinAid.Org/calculators

PICAP

UC Hastings
Public Interest Career Assistance Program

Description:
- UC Hastings College of the Law provides forgivable loan to help make monthly Federal Direct Loan payments for public service employment

Eligibility:
- Eligible loans = Federal Direct Loans @ UC Hastings
- Eligible employment = same as PSLF
- Eligible payments = same as PSLF

Application process:
- Annual application submitted to Financial Aid Office

More information:
- Financial Aid website/Financial Aid staff

Final Comments

To benefit from PSLF ...

1. Consolidate any non-Direct Federal Student Loans in the Federal Direct Loan Program at: LoanConsolidation.ed.gov
2. Use IBR or PAYE to repay your Direct loan(s)
3. Make 120 payments (on-time) while employed full-time in qualifying public service position(s)
4. Keep good records regarding all qualifying employment
5. Submit "Employment Certification Form for PSLF" annually (available at: StudentAid.ed.gov/publicservice)
6. Apply for PSLF after 120 months of qualifying activity has been completed

For more information ...

- Federal student loan repayment: StudentAid.gov
- Federal Direct Consolidation Loans: LoanConsolidation.ed.gov
- Public service: StudentAid.ed.gov/PublicService
- National Student Loan Data System: NSLDS.ed.gov
- Federal loan repayment calculator: StudentAid.gov
- PSLF benefits estimation: FinAid.org/calculators
- Equal Justice Works: EqualJusticeWorks.org
- Ask Heather Jarvis: AskHeatherJarvis.com
THE GOOD NEWS:

Options exist to help you repay your federal student loans if you are planning a career in public service!