PUBLIC SERVICE LOAN REPAYMENT STRATEGIES

Spring 2013

Jeffrey Hanson
Education Services

University of California
Hastings College of the Law
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.
5 Loan Forgiveness

Public Service Loan Forgiveness Program (PSLF)
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
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
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

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
To access, enter:

- SSN
- First two letters of last name
- Birthdate
- Dept. of Ed PIN
FFEL vs. Direct

Federal Family Education Loan Program (FFEL)
- Lender was private institution
- FFEL loans can be sold to another entity
- Loans may be serviced by lender or 3\textsuperscript{rd} party
- 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

Federal Direct Loan Program (Direct)
- Lender was U.S. Department of Education (ED)
- Direct loans won’t be sold
- Loans are serviced by one of five federal contractors
- Only Direct Loans are eligible for Public Service Loan Forgiveness
Qualifying Employment

Must be FULL-TIME, paid employee of a:

- 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

<table>
<thead>
<tr>
<th><strong>Pros</strong></th>
<th><strong>Cons</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>- Increases financial feasibility of pursuing a public interest/public sector legal career if you have student loan debt</td>
<td>- “All or nothing” benefit; you must put in full 10 years/120 months of qualifying public service employment/loan payments</td>
</tr>
<tr>
<td>- Portion of eligible federal student loan debt may be forgiven</td>
<td>- Only Direct Loan debt can be forgiven</td>
</tr>
<tr>
<td>- Entitlement</td>
<td>- Currently no process to confirm eligibility prior to completing 120 months of qualifying employment</td>
</tr>
</tbody>
</table>
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
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
Repayment Plans

IBR and PAYE
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
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
## Sample IBR Payments
### 15% 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>
<td>$0</td>
</tr>
<tr>
<td>$10,000</td>
<td>$0</td>
</tr>
<tr>
<td>$20,000</td>
<td>$41</td>
</tr>
<tr>
<td>$30,000</td>
<td>$166</td>
</tr>
<tr>
<td>$40,000</td>
<td>$291</td>
</tr>
<tr>
<td>$50,000</td>
<td>$416</td>
</tr>
<tr>
<td>$60,000</td>
<td>$541</td>
</tr>
<tr>
<td>$70,000</td>
<td>$666</td>
</tr>
<tr>
<td>$80,000</td>
<td>$791</td>
</tr>
<tr>
<td>$90,000</td>
<td>$916</td>
</tr>
<tr>
<td>$100,000</td>
<td>$1,041</td>
</tr>
</tbody>
</table>
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>
<td>$0</td>
</tr>
<tr>
<td>$10,000</td>
<td>$0</td>
</tr>
<tr>
<td>$20,000</td>
<td>$27</td>
</tr>
<tr>
<td>$30,000</td>
<td>$110</td>
</tr>
<tr>
<td>$40,000</td>
<td>$194</td>
</tr>
<tr>
<td>$50,000</td>
<td>$277</td>
</tr>
<tr>
<td>$60,000</td>
<td>$360</td>
</tr>
<tr>
<td>$70,000</td>
<td>$444</td>
</tr>
<tr>
<td>$80,000</td>
<td>$527</td>
</tr>
<tr>
<td>$90,000</td>
<td>$610</td>
</tr>
<tr>
<td>$100,000</td>
<td>$694</td>
</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>1\textsuperscript{st} 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 10\textsuperscript{th} year</td>
<td>$58,715</td>
</tr>
</tbody>
</table>

### IBR Payment Information

<table>
<thead>
<tr>
<th>IBR Payment Information</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>IBR monthly payment in 1\textsuperscript{st} month</td>
<td>$353</td>
</tr>
<tr>
<td>IBR monthly payment in 120\textsuperscript{th} month (max)</td>
<td>$461</td>
</tr>
<tr>
<td>Total amount paid in IBR over 10 years</td>
<td>$48,570</td>
</tr>
</tbody>
</table>

### Estimated Loan Forgiveness

<table>
<thead>
<tr>
<th>Estimated Loan Forgiveness</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total accrued interest forgiven after 10 years</td>
<td>$43,618</td>
</tr>
<tr>
<td>Total principal forgiven after 10 years</td>
<td>$128,500</td>
</tr>
<tr>
<td>Total amount forgiven after 10 years</td>
<td>$172,118</td>
</tr>
</tbody>
</table>

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