Take Control of Your Future

A Guide to Managing Your Student Debt

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Helping Lawyers Help Community

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Equal Justice Works provides this information for educational and informational purposes only; it is not intended and should not be construed as legal advice. Educational debt relief programs are not automatic, and borrowers must take specific actions in order to qualify.

*Equal Justice Works provides resources to help borrowers. For additional tools and information, please visit **equaljusticeworks.org**.*

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Table of Contents

Foreword

The landscape of higher education has changed dramatically over the past few decades. Enrollment in higher education has increased significantly, and it has never been truer that higher education is a necessity in an increasingly competitive economy. One study estimates that we will be 3 million college degrees short in 2018.

At the same time, tuition has risen exponentially and state and federal investment has not kept pace Instead, state spending per student has decreased 26 percent over the past two decades and caps on federal aid – including Pell Grants, which go to the students who need help the most – mean that these grants cover a smaller portion of college costs than they used to.

Our world has a growing need for higher degrees, but the cost of educating our populace is shifting to students and families. For this generation of students, financing an undergraduate, graduate or professional degree requires entirely different, and more expensive, decisions.

Today's graduates are leaving school with significant debt, and more students hold that debt. In fact about two-thirds of undergraduates leave with debt, walking off campus more than $26,000 in the hole. For many, pursuing a graduate or professional degree adds tens of thousands of more dollars to their debt burden.

Yet despite this shift, students lack critical information about financing their education. In a recent survey conducted by Young Invincibles, about two-thirds of high-debt borrowers stated that aspects of their loans surprised them. A similar proportion of private loan borrowers said that they did not understand the differences between the federal and private loan options.

It is hardly surprising, then, that organizations like Equal Justice Works are growing in importance, and that resources like this e-book have become crucial tools for navigating the world of student debt. Equal Justice Works provides clear and understandable information that demystifies the processes of borrowing student loans, finding workable repayment options and pursuing opportunities for loan repayment assistance and forgiveness. *Take Control of Your Future* provides today's undergraduate, graduate and professional students with a clear, understandable view into the complex world of student loans. In doing so, it is a critical resource and provides an essential service for today's student.

Jen Mishory
Deputy Director, Young Invincibles
October 2012

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Introduction

Equal Justice Works' Educational Debt Relief Program

The cost of education and the educational debt burden in the United States continue to grow at an alarming rate. The nationwide educational loan debt is more than $1 trillion, more than we owe in car loans and credit card debt. Managing this growing debt burden is challenging for many students and graduates, and the challenges are particularly great for those interested in lower-paying public service careers.

We believe that education should lead to opportunities for happiness and career success, and that educational debt should not stand in the way. Equal Justice Works is a leading supporter of programs and policies that reduce the educational debt burden for all students and professions.

Our Educational Debt Relief program is devoted to advocating for educational debt relief and spreading the word to make sure those who need relief are taking the right steps to qualify.

The Impact of Debt

According to the Project on Student Debt, “Seven in 10 college seniors who graduated in 2012 had student loan debt, with an average of $29,400 for those with loans.” Students with advanced degrees often carry even heavier debt burdens that exceed $100,000.

Under a standard 10-year repayment plan, a borrower with $100,000 in total debt (not unusual for graduates with advanced professional degrees) would have to pay more than $1,150 per month. This is clearly unaffordable for many graduates, particularly those working in public service careers.

How to Use this Book

Programs created by the College Cost Reduction and Access Act of 2007 (CCRAA) can provide significant relief for millions of borrowers. Ongoing enhancements to these programs provide the possibility of relief to many more.

School-, state- and employer-based Loan Repayment Assistance Programs (LRAPs) provide additional relief and are a necessary complement to the relief available from federal programs.

Unfortunately, many borrowers remain unaware of the relief available through the use of these programs or how to participate in them.

This book is designed to provide detailed information for borrowers at any stage of their career about managing educational debt.

- **Chapter 1** reviews basic but important information about private and federal loans that can affect your eligibility for certain relief programs.
- **Chapter 2** discusses how to plan before you borrow to minimize your educational debt.
- **Chapter 3** details income-driven repayment plans, such as Income-Based Repayment, Income-Contingent Repayment and Pay As You Earn, that help you lower your monthly payments, avoid delinquency and default, and manage repayment of your loans.
- **Chapter 4** focuses on Public Service Loan Forgiveness, which provides loan forgiveness after 10 years if you work in a wide range of public service jobs.
- **Chapter 5** investigates a range of Loan Repayment Assistance Programs (LRAPs), provided by schools, employers, states and the federal government, that can help you manage your educational debt by providing funds to make your monthly payments.
- The **appendices** contain links to resources developed by Equal Justice Works and frequently asked questions that will help further explain various programs.

We suggest you initially read the book straight through as many of these programs are interrelated. After surveying the landscape of debt relief options, you can go back and use specific chapters as how-to manuals based on your individual circumstances.

chapter 01 Understanding Your Student Loans and Loan Consolidation

It is important to understand the basics of student loans and the major types of loans available. The types of student loans you borrow will affect your eligibility for certain borrower protections and debt relief programs such as income-driven repayment plans and Public Service Loan Forgiveness. We suggest referring to this chapter when making decisions about borrowing and loan consolidation.

Private Loans versus Federal Loans

Commercial or private loans are obtained through private institutions like schools, banks and state education authorities. Rates and terms can vary greatly based on the lender. It is important to note that private loans are **never eligible** for federal relief programs such as Income-Based Repayment (IBR), Income-Contingent Repayment (ICR), Pay As You Earn and Public Service Loan Forgiveness (PSLF).

Federal loans include Subsidized and Unsubsidized **Stafford** (now referred to as Direct Subsidized and Direct Unsubsidized), **Grad PLUS** and **Perkins Loans**. **Parent PLUS** Loans are federal loans available for parents to borrow to help pay for their dependent child to attend school. To qualify for federal relief, you need to make sure you are taking out federal loans.

Federal loans also come with borrower protections, such as fixed interest rates, and deferment and forbearance in times of hardship. Commercial loans are not required to provide any of these protections and generally do not.

Fixed Interest Rate means that your interest rate will remain at a fixed percentage of your loan. Variable rates may seem low at first, but can increase to a higher rate, which may make payments difficult and unaffordable.*

** For a small number of borrowers with very good credit, a very high salary anticipated upon graduation and the financial ability to repay their loans on an accelerated schedule if their interest rate increases, these variable interest rates may provide some opportunity to save money in the short term.*

Deferments are temporary suspensions of payments that are available if you re-enroll in school, are unemployed or face economic hardship. Deferments also are available in instances of disability, certain military service and for a period following active military duty. Interest does not accrue on Perkins Loans or Subsidized Stafford Loans (but will on any unsubsidized loans) during periods of deferment.

Forbearances are temporary postponements or reductions of payments because of financial hardship. You may be able to receive forbearance if you are not eligible for deferment. A major distinction between deferment and forbearance is that interest accrues on all your loans while you are in periods of forbearance.

One reason these protections are so important is that they can help you avoid **delinquency** (falling behind on your student loan payments) and **default** if you fall on hard times. For federal loans, default is usually declared after nine months of delinquency, but for private loans, you could be in default as soon as you miss a payment.

If you default on your federal loans, the government can seize tax refunds, garnish your wages, and take a portion of Social Security payments – all without a court order – and you will lose eligibility for new student loans and grants. Private lenders' collection powers are not as strong, but their collections process is persistent (and often harassing).

If you default on either your private or federal loans, it affects your credit and could prevent you from securing a credit card, car loan, mortgage, apartment or job. You may even lose your professional license. You are likely to face these consequences if you go into default because the high standard and complex procedure required to receive bankruptcy protections for student loans makes it an unfeasible option for many federal and private loan borrowers.

As a result, eligibility for federal relief and forgiveness programs like income-driven repayment plans and Public Service Loan

Forgiveness, and protections such as fixed interest rates, deferment and forbearance, are vital safeguards for student loan borrowers who will be repaying their loans for at least 10 years and often longer. **We strongly recommend that undergraduates turn first to federal loans and take out private loans as a last resort if they need to borrow more than the limits on federal loans allow. Graduate students who must borrow beyond the Stafford Loan limits should utilize Grad PLUS Loans to pay for their education rather than relying on private lenders.**

FFEL and Federal Direct Loans

Federal student loans (like Stafford Loans and Grad PLUS Loans) may have originated from one of two major federal student lending programs: the Federal Family Education Loan (FFEL) Program or the Federal Direct Loan Program.

Federal student loans from the FFEL Program were issued by private banks and lending institutions like Sallie Mae but are still federal student loans because they are guaranteed by the government. Although Congress discontinued the FFEL Program in 2010, you may have FFEL Loans if you borrowed before then. Federal Direct Loans are federal student loans issued directly by the U.S. Department of Education, but often are serviced by private contractors, like Sallie Mae. So, even though you communicate with or pay Sallie Mae, you still may have a Federal Direct Loan.

It is important to know what types of loans you have in order to determine what you need to do to qualify for federal programs like income-driven repayment plans and Public Service Loan Forgiveness.

Keep Track of Your Loans

Every federal loan you have borrowed, along with its repayment status, is entered into the National Student Loan Data System. To see what types of federal loans you have:

- Request a Personal Identification Number (PIN) from the Department of Education: **www.pin.ed.gov.**
- Use the PIN to look up your loans in the National Student Loan Data System: **https://www.nslds.ed.gov/nslds_SA/**.

If you borrowed commercial student loans, you can check their status by requesting a credit report at **www.annualcreditreport.com.**

Loan Consolidation

When you graduate, you may consolidate your federal student loans into a federal consolidation loan in order to repay on an extended schedule and reduce your payment amount. In the past, federal consolidation loans may have been obtained through FFEL lenders or through Federal Direct, so if you have a consolidation loan it may be from either program. Any federal consolidation loans after 2010 will be Federal Direct Consolidation Loans.

- The Federal Direct Consolidation Loan application is available at **studentloans.gov**. As of May 18, 2014, all borrowers must now apply for Direct Loan consolidation using this site. The Department of Education strongly encourages borrowers to apply online, but you also may download and print a paper application to submit by regular mail. Borrowers whose applications were submitted before May 18, 2014 using the old site, **loanconsolidation.ed.gov**, can call 1-800-557-7392 with questions regarding those applications.

You can transfer your FFEL Loans into the Federal Direct Loan Program by consolidating them (FFEL Consolidation Loans are no longer available). If you already have consolidated your federal student loans into a FFEL Federal Consolidation Loan, you have the right to reconsolidate into a Federal Direct Consolidation Loan in order to take advantage of Public Service Loan Forgiveness.*

** However, be careful to not consolidate Federal Direct Loans on which you've already made qualifying payments toward Public Service Loan Forgiveness. The Department of Education has indicated that subsequently consolidating loans on which you've made qualifying payments will reset the qualifying payment count for those loans. Learn more about the requirements for Public Service Loan Forgiveness in "**Chapter 4**: Public Service Loan Forgiveness."*

Consolidating Parent PLUS and Perkins Loans

Parent PLUS and Perkins Loans generally are only eligible for programs like income-driven repayment plans and Public Service Loan Forgiveness when part of a federal consolidation loan.

While federal consolidation loans that repaid Parent PLUS Loans are eligible for Public Service Loan Forgiveness and Income-Contingent Repayment, they are not eligible for Income-Based Repayment or

Pay As You Earn, so try to avoid including Parent PLUS Loans in your consolidation loan if you intend to enroll in IBR or Pay As You Earn. You can read about major differences between these plans in **Chapter 3**.

Federal Perkins Loans include their own cancellation provisions for different professions and categories of public service that may be more advantageous than Public Service Loan Forgiveness, and you may be able to defer payments while you are performing service that qualifies for Perkins cancellation. These provisions will be lost if you consolidate your Perkins Loan. Therefore, while you will need to consolidate Perkins Loans for those to be eligible for an income-driven repayment plan or Public Service Loan Forgiveness, you always should consult with the school from which you obtained a Perkins Loan before consolidating to find out whether you qualify for Perkins cancellation.

chapter 02 Getting Started – Plan Before You Borrow

The best way to deal with the burden of educational debt is to minimize your borrowing and not incur unnecessary debt.

It is important to consider your future career plans and likely income when deciding where you want to go to school and how you will be able to pay for it. Your repayment options, the availability of educational debt relief and what type of debt you should borrow also should factor into your decisions.

Career Plans and Likely Income Projections

Think about your career plans. If your expected starting salary is $35,000, you may not want to borrow more than that because repaying a higher amount may be a significant burden. If you are planning a career that requires an advanced degree, but your starting income will be around $50,000, will it make sense for you to borrow significant amounts of money for both your undergraduate and graduate degrees? Understand what you are getting into before you start borrowing, and decide how much you are willing to borrow to achieve your goals.

Tuition

Tuition is the starting point in assessing what your debt load may be, and it can vary dramatically from school to school.

But tuition is not the only factor in how much school will cost. You should look at the net price of each school. Net price includes tuition, fees, room and board, and scholarships and grants, and is a more accurate projection of what your actual cost may be. You may find that schools with higher tuition have a lower net price – making those schools more affordable. The U.S. Department of Education maintains a **College Affordability and Transparency Center** that contains information on net price and tuition and fees, and includes links to colleges' net price calculators, the College Scorecard and the College Navigator to help you with your school search and help estimate what you truly may have to pay.

Another way to mitigate tuition is residency. Residency can affect tuition at state-supported schools (private schools generally have the same tuition regardless of where a student lives). If you are considering a state-supported school, learn its residency rules. You may be able to establish residency before applying or after your first year, which will impact your financial calculations.

Also, earning income while attending school can be a great help and may help minimize the amount you need to borrow. You may be able to earn a degree while continuing to work. If you are able to do so, using a portion of that income to help pay for school, or expenses like books and rent, can reduce the amount of debt you incur. But try to strike a balance between working and completing your program.

Pursue All Options for Financial Aid

Explore the availability of financial aid at any school to which you apply – never assume you won't qualify. To achieve your educational goals and minimize your debt load, exhaust all financial aid options before turning to loans.

The first step you must take is to fill out the Free Application for Federal Student Aid (FAFSA). The FAFSA is required to secure access to federal student aid (this includes federal grants in addition to federal loans). Many states and institutions also use information from the FAFSA to determine eligibility for their different grant and loan programs. If you don't fill it out you will lose the opportunity to receive this assistance.

Don't make the mistake of thinking the FAFSA is not worth your time. Many students qualify for some form of aid. And even if you are not eligible for a grant or scholarship, you cannot borrow federal loans if you don't fill it out.

So how do you get started? Each year, beginning Jan. 1, a new FAFSA is available at **fafsa.ed.gov**. The federal deadline for submission of the application is generally the end of June, but some states and institutions have earlier dates so make sure you file by any applicable deadlines.

Because funds for many grants – which everyone should pursue since this type of aid does not need to be repaid – are limited and may be distributed early in the year, you should submit your FAFSA as soon as possible. The FAFSA must be submitted every year.

Scholarships and Grants

Scholarships and grants are awarded depending on policies regarding need and/or merit and do not have to be repaid. The mechanics of school-based awards vary from school to school. A growing number of schools have individual scholarships and programs aimed at assisting students who have a commitment to or background in a particular field or in public service. Ask each school's financial aid office for more information, and use resources like **FastWeb.com** to find external scholarships and grants that may help you. Do this when you are applying or thinking about applying – don't wait until you are accepted.

In evaluating any scholarship program, consider:

- The total amount of financial aid available;
- How competitive you will be for the number of slots available;
- Any obligations you will have in exchange for the funds; and
- The nonfinancial benefits provided, such as special career counseling services, lectures and symposia, leadership opportunities and preferential entry into selected courses.

Finally, compare prospective schools, paying attention to the percentage of students receiving scholarships and grants, the median dollar amount received and the availability of public interest or major-specific scholarships. This information may impact your decision on which school to attend.

Federal Work-Study

The Federal Work-Study Program funds students to work on campus or in off-campus nonprofit agencies. Find out if your prospective schools offer work-study funds and if those funds are restricted to on-campus work or whether they can be used to fund students to work with off-campus public interest organizations.

Consider Relief That Can Help With Repayment

If you must borrow student loans, there are programs that can provide significant relief to ease the burden of repaying these loans. These include income-driven repayment plans and forgiveness for federal loans, as well as loan repayment assistance programs that help provide funds to make payments on your loans. Read Chapters **2**, **3** and **4** to learn more. Also, review the differences between private and federal loans in **Chapter 1** to make sure you are borrowing eligible loans. To learn what you should look for in these programs and how they can significantly reduce your educational debt burden, register for a free **informational webinar** hosted by Equal Justice Works.

Additional Resources

- **Quick Facts on Student Debt from the Project on Student Debt**
- The National Consumer Law Center's **Student Loan Borrower Assistance Project** is a resource for borrowers who want to know more about their options and rights.
- The Smart Student Guide to Financial Aid at **FinAid.org**
- **FastWeb.com** is a free scholarship search engine to help find external scholarships and grants for which you may qualify.
- The Department of Education's **Federal Student Aid Center**
- The Department of Education's **College Affordability and Transparency Center**
- **Studentloans.gov:** Your source for information from the U.S. Department of Education about how to manage your student loans. You can complete counseling (Entrance, Financial Awareness and Exit), manage repayment and more.
- The Consumer Financial Protection Bureau's (CFPB) **Student Debt Repayment Assistant**

chapter 03 Income-Driven Repayment Plans

Income-driven repayment plans like Income-Based Repayment (IBR), Pay As You Earn, and Income-Contingent Repayment (ICR) help by lowering monthly payment amounts. These programs also make it possible for you to receive cancellation if you still are repaying your loans after 20 or 25 years (depending on the plan) regardless of your chosen profession.

Income-Based Repayment (IBR)

Established by the College Cost Reduction and Access Act of 2007, IBR can reduce your monthly payments and help make your educational debt manageable.

Generally, repayment amounts on student loans are calculated by taking the amount you owe (including interest) and dividing it up equally for a term of years. For example, if you are in a standard 10-year repayment plan, you will repay your debt completely in 10 years. The total amount you owe is divided into 120 equal payments and you will pay the same amount each month for 120 months (10 years).

However, as the name suggests, IBR calculates your monthly payment amount based on your income rather than the amount you owe, which means your monthly payment amount will be less if you have a lower income and will rise if your income rises.

Due to provisions Congress enacted in 2010, the percentage of your income you will pay in IBR differs depending on when you first borrowed federal student loans. So-called "new borrowers" who take out their first federal loan (essentially begin their borrowing) after July 1, 2014, or who repay all their earlier loans before taking out a new loan after July 1, 2014, pay no more than 10 percent of their income. Borrowers who do not meet these criteria pay no more than 15 percent.

However, some borrowers who are not eligible to pay 10 percent of their income in IBR still may qualify for similar benefits in the Pay As You Earn plan. Even "new borrowers" might find **Pay As You Earn** preferable because of certain interest protections that differ from IBR. (Read the section below on Pay As You Earn to learn more).

In addition to lowering your monthly payments based on income, regular borrowers who enroll in IBR and are still repaying their loans after 25 years (excluding time spent in forbearance or deferment other than an economic hardship deferment) will have any principal and interest remaining on their loans cancelled. New borrowers, as defined above, are eligible for cancellation after 20 years.

Qualifying for Income-Based Repayment

To qualify for IBR, you must have a partial financial hardship. Generally, most borrowers have a partial financial hardship if the amount they would pay annually if all their eligible loans were on a standard 10-year repayment plan would exceed 15 percent of their "discretionary income." New borrowers have a partial financial hardship if the amount they would pay annually if all their eligible loans were on a standard 10-year repayment plan would exceed 10 percent of their discretionary income.

Your discretionary income is calculated by taking your adjusted gross income (which is either based on your latest income tax filings or alternative documentation) and subtracting 150 percent of the federal poverty level for your family size. The Federal Poverty Guidelines are released annually and are available **online**.

Typically, if you earn less than you owe in eligible federal student loans, you will have a partial financial hardship and qualify for IBR. Public service employees with advanced degrees may have a relatively high student debt-to-income ratio and qualify for IBR.

The Department of Education has a helpful **Repayment Estimator**. You can use it to determine whether you may be eligible for IBR and to obtain an estimate of your monthly payment amount. Ultimately, your lender or servicer will confirm your eligibility and calculate your exact monthly payment amount when you apply for IBR.

Only certain loans are eligible for IBR

To make sure IBR is available to you, you must borrow ***federal loans***. Only Federal Direct and federally guaranteed (FFEL) loans are eligible for Income-Based Repayment.

Eligible Federal Direct Loans and FFEL Loans include: Subsidized and Unsubsidized Stafford Loans; Grad PLUS Loans (**not** Parent PLUS Loans); and federal consolidation loans (but **not** consolidation loans that repaid Parent PLUS Loans).

Which student loans are not eligible for IBR?

Remember, commercial loans from state or private lenders are never eligible for federal income-driven repayment plans or federal forgiveness. Try to avoid borrowing private loans if you want to preserve the ability to enroll all your loans in Income-Based Repayment.

Also, Parent PLUS Loans are not eligible for IBR. Federal consolidation loans that repaid Parent PLUS Loans also are ineligible.

Federal Perkins Loans are only eligible when part of a FFEL or Federal Direct Consolidation Loan. However Perkins Loans include their own cancellation provisions. Before consolidating a Perkins Loan, you should consult with the school from which you obtained the loan to find out whether you can benefit from cancellation. These provisions will be lost if Perkins Loans are consolidated.

TIP: If you do not know which loans you have, bookmark this page so you can return to it and go to “**Chapter 1**: Understanding Your Student Loans and Loan Consolidation” for an explanation.

Paying under Income-Based Repayment

For regular borrowers, as long as you demonstrate a partial financial hardship and remain in IBR, the amount you pay monthly will be capped at 15 percent of your discretionary income. For new borrowers, the amount you pay monthly will be capped at 10 percent of your discretionary income.

Because your monthly payment amount is based on your income and family size, rather than the amount you owe, your monthly payment increases as your income increases.* If your income decreases, your monthly payment amount also will decrease.

If your income increases to a point where you no longer have a partial financial hardship, your payment amount will no longer be based on your income. Instead it will be set at what you would have paid if you had entered a standard 10-year repayment plan when you first entered IBR. This could be a significant increase and you may wish to switch out of IBR to receive lower payments under a different plan. Please refer to the subsection "Choosing to Leave IBR**" below to learn about the implications of switching to a different plan. You also can use the **calculators** available at **FinAid.org** to see how your payments may increase over time based on your income expectations*

The chart below contains estimates from the Department of Education on what regular borrowers whose payments are capped at 15 percent of their discretionary income may expect to pay in IBR. Obviously, new borrowers eligible for the 10 percent cap will pay less.

ESTIMATES FROM THE DEPARTMENT OF EDUCATION ONWHAT YOU MAY EXPECT TO PAY UNDER IBR® IF IT IS CAPPED AT 15 PERCENT OF YOUR DISCRETIONARY INCOME *

Assume everyone on this chart has $100,000 in eligible debt. Once you demonstrate a partial financial hardship, it does not matter how much you owe. IBR payments are based on your income and family size.

ANNUAL INCOME	FAMILY SIZE (USING POVERTY GUIDELINES IN EFFECT AS OF SEPTEMBER 2014)						
	1	2	3	4	5	6	7
$10,000	$0	$0	$0	$0	$0	$0	$0
$15,000	$0	$0	$0	$0	$0	$0	$0
$20,000	$31	$0	$0	$0	$0	$0	$0
$25,000	$103	$18	$0	$0	$0	$0	$0
$30,000	$156	$80	$0	$0	$0	$0	$0
$35,000	$228	$143	$66	$0	$0	$0	$0
$40,000	$281	$205	$129	$53	$0	$0	$0
$45,000	$344	$268	$191	$115	$39	$0	$0
$50,000	$406	$330	$254	$178	$102	$26	$0
$55,000	$469	$393	$316	$240	$164	$88	$12
$60,000	$531	$455	$379	$303	$227	$151	$74
$65,000	$594	$518	$441	$365	$289	$213	$137
$70,000	$656	$580	$504	$428	$352	$276	$199

**These are only estimates, available from the Department of Education. Your lender or servicer will confirm your eligibility for IBR and calculate your monthly payment amounts based on your individual circumstances.*

Your spouse's income could affect your eligibility and monthly payment amount

When married borrowers file joint income tax returns, both spouses' income and federal loan debts are used in calculating eligibility and income-based payment amount. If you **file a separate federal income tax return**, your eligibility and income-based payment amount are calculated solely on the basis of your federal student loan debt and adjusted gross income. You can estimate your monthly payments and compare scenarios using the Department of Education's **Repayment Estimator**. Because filing separately may result in a different tax rate and the loss of certain tax credits and deductions, you may wish to consult with a tax or financial professional to decide whether filing singly or jointly is best for you.

NOTE: If you have filed a joint income tax return before you enroll in IBR, **the Department of Education requires your servicer to calculate your eligibility and income-based payment amount based on your and your spouse's combined joint income and federal loan debt**. If you think it will be advantageous for you to have your eligibility and income-based payment amount calculated solely on the basis of your federal student loan debt and adjusted gross income, make sure you file singly before enrolling in IBR.

Calculating family size in IBR

Family size includes you, your spouse, and your children if the children will receive more than half their support from you, regardless of whether you claim them for tax purposes. This includes unborn children who will be born during the year for which you certify your family size. Family size also includes other people if they live with you now, they receive more than half their support from you now, and they will continue to receive this support from you for the year that you certify your family size. Support includes money, gifts, loans, housing, food, clothes, car, medical and dental care, and payment of college costs.

Interest accumulation in IBR

It is important to be aware that while you are in IBR, your monthly payments may be lowered to a point where they will not cover all the monthly interest that accrues. (You may hear this referred to as negative amortization.) Since payments made in IBR are applied to interest first, this means you may not be paying down your principal at all. As a result, your repayment period in IBR is likely to extend past the standard 10-year term and you may pay more in interest (because interest accrues over time, a longer repayment term means more interest).

IBR has protections that help. The government pays any unpaid, accrued interest on your subsidized federal loans for up to three consecutive years from the date you begin repaying the loans under IBR. And while you are enrolled in IBR *and* have a partial financial hardship, unpaid interest is **not** capitalized (that is, it is not added to the loan principal where it will accumulate additional interest – this is often described as paying interest on interest). This is true regardless of whether you have subsidized or unsubsidized loans.

However, if your income rises to a point where you no longer have a partial financial hardship, any accumulated interest will capitalize even if you choose to stay in IBR. (You may want to stay in IBR in order to take advantage of its other benefits such as cancellation after 25 years.) Any accumulated interest also will capitalize if you ever choose to leave IBR (you have the right to switch your repayment plan if you so choose).

It is a good idea to check out how much accrued interest you will end up paying in different repayment plans based on your individual financial circumstances and future career plans. Generally, if you can afford payments under a shorter, standard 10-year plan, this may be better in the long term because you'll end up paying less in interest and less overall than over an extended term in IBR. You can compare repayment plans by using the **calculators** available at **FinAid.org**.

A look at how Income-Based Repayment helps Dara Defender

The following example was calculated using the calculators at FinAid.org and assumes Dara is a regular borrower. Because FinAid's calculators are based on 2012 poverty line data, your specific numbers may differ slightly, but these provide an estimate from which to start. New borrowers can look at the Dara Defender example below in the section on ***Pay As You Earn*** *for an approximation of how repayment in IBR would look for them. Note that, because of interest, Dara is expected to pay back more than she borrowed, but compare the substantial differences in the total amounts she would have to pay.*

Dara graduates with $50,000 in eligible unsubsidized federal loans. Her loans have a 6.8 percent interest rate and she is single.

Dara takes a job earning a salary of $35,000 per year. Because she owes $50,000 and only makes $35,000, Dara has a partial financial hardship (owes more than 15 percent of her discretionary income) and is eligible for IBR. During her first year in IBR, Dara's monthly payments are around $228. Dara would pay more than twice as much – around $575 per month – under a standard 10-year repayment plan.

Dara receives annual salary increases of 3 percent and her monthly payments under IBR gradually rise. She remains in IBR for 25 years and in year 25, Dara earns about $71,148 and pays about $464 per month – still less than she would have had to pay under a 10-year plan.

At the end of year 25, Dara has paid **about $99,780** and her remaining balance of principal and interest (about $26,358) is cancelled.

Under an extended plan, Dara would have paid **about $104,109** (twice the amount she borrowed) and would have had to pay about $347 per month regardless of her income. A graduated plan would have started her initial payments at $288, but these payments would rise gradually regardless of Dara's income and she would pay a total of **about $112,122**.

Dara would have paid less in interest and less overall in a standard 10-year plan – about $69,048 –but she would have had to pay more per month (at times, more than twice as much) regardless of her income.

Selecting Income-Based Repayment

If you have a partial financial hardship, you may enroll in IBR for your eligible federal student loans:

- If you are entering repayment, select the Income-Based option on the IBR/Pay As You Earn/ICR Request form. If you are unsure of your eligibility for IBR – or if you simply want to enroll in the income-driven plan (for which you are eligible) that will provide you with the lowest monthly payment – you can check the box in Section 2 of the form requesting to be placed in the plan with the lowest monthly payment amount.
- If you already are in repayment, contact your lender or servicer and request to switch to the IBR plan.
- Federal Direct Loan borrowers, and some FFEL borrowers, can apply in one step at **studentloans.gov** (either when entering repayment or switching plans). Log in to see if you can.

You will need to provide your loan servicer with documentation of your adjusted gross income and certify your family size. You also will need to submit a copy of your most recent tax return or alternative documentation of income. Once you provide the requested information and certify your family size, your servicer will confirm your eligibility for IBR and calculate your monthly payment amount.

Annual certification is required to continue income-based payments

You will need to submit the IBR/Pay As You Earn/ICR Request form and any required alternative documentation annually to certify your income and family size in order to continue paying an income-based amount in IBR. Your annual period will be based on the date you entered IBR (or the last time your payment amount was calculated) and your servicer will send you a notice requesting the information and setting a deadline by which it must be received. If you do not submit the documentation on time, you will revert to a higher, standard 10-year payment amount *and* your interest will capitalize. You should always make sure your servicer has your current address and provide requested information by any applicable deadlines.

Requesting a recalculated monthly payment amount

If your financial circumstances change, you have the right (but not an obligation) to request that your loan holder(s) recalculate your monthly IBR payment(s) before your annual certification date. This is done using the using the IBR/Pay As You Earn/ICR Request form.

Choosing to leave IBR

Once you have qualified for and enrolled in IBR, you may remain in the plan until you have completed repayment. This is true even if you no longer have a partial financial hardship and your payments are recalculated to the standard 10-year amount. As long as you remain in IBR, you will remain eligible for 25-year cancellation.

However, based on your individual circumstances, you may choose to exit Income-Based Repayment before you have finished repaying your loans. For example, if you no longer have a partial financial hardship, you may find you cannot afford your recalculated monthly payments.* In this case, you may wish to switch to an extended plan that would require lower payments if one is available.

** Please refer to the note in the subsection "**Paying under Income-Based Repayment**" above to read more about what happens in IBR when you no longer have a partial financial hardship.*

Leaving IBR has certain implications:

- Generally, you have the right to switch repayment plans at any time after repayment. However, if you exit IBR, you initially will be placed in a standard repayment plan and required to make one full monthly payment at the standard payment amount before you may switch from the standard plan to a different plan. If you cannot afford this payment, you have the right to negotiate with your loan holder to pay a smaller amount under a forbearance agreement and then switch to a different plan.
- You also may not switch into a plan with a shorter term of years than the time you've already spent in repayment. For example, if you've spent 11 years in repayment, you may not switch into a 10-year plan. If you already have spent 10 or more years in IBR, you may not be able to switch out of IBR unless your standard term is longer than 10 years or there is an extended plan available to you. In this case, a full monthly payment may be the full amount remaining on your loan!

How does this work? Upon exiting IBR, you will be placed in a standard plan. For all loans except federal consolidation loans, your new repayment term will be 10 years (for consolidation loans, the term of years will be based on the amount you initially owed) and your monthly payment amount will be calculated so that you will pay off your loan in the time that remains in that term (again, this generally is 10 years, but may be different for a consolidation loan so ask your servicer what the standard term is for your loans). For example, if you are placed in a standard 10-year plan and you already have spent five years in IBR, the remainder of your loan will be split into equal monthly payments over the next five years, so that you complete repayment over a total of 10 years.

You may switch from the standard plan into an extended plan if one is available. However, you will be asked to make a full monthly payment at the new standard amount before you are able to do so.

What if I can't afford to make this full monthly payment? While you will be asked to make a full monthly payment before switching into a more affordable plan, you are able to meet this requirement by reaching an agreement with the holder of your loan to pay a smaller amount. So make sure you ask to do this!

What you technically are asking for is to make a reduced payment under a forbearance agreement that considers the reduced amount a payment in full for that month. Once you've met the requirement, you may switch into a more affordable plan like the extended plan.

For example:
You owe $25,000 and have repaid $10,000 over the course of five years in IBR when you choose to exit IBR. You will be placed in a standard 10-year repayment plan. Your monthly payments will be calculated so that you finish repaying the remaining $15,000 in the next five years (since you've already been in repayment for five years). Before you switch into a more affordable plan, you will be asked to make one full monthly payment.

- You may ask the holder of your loan to allow you to pay a smaller amount under a forbearance agreement, to allow you to afford this one monthly payment. Once you meet the requirement, you may switch plans.
- If you've spent 10 years in repayment, when you exit IBR and are placed in a standard 10-year plan, you may not be able to exit IBR without being asked to pay the full $15,000 (since you've already been in repayment for 10 years).

Always check with your loan holder first! Determine what options are available to you – what your future payment amount will be and whether you'll be able to make a reduced payment and switch into an extended plan – to make sure you are making the decision that is best for you and that you are not putting yourself in a more difficult situation by leaving IBR.

Then evaluate these additional factors:

- If you exit IBR, any interest that has accrued on your loans will capitalize, and interest will continue to capitalize moving forward (unless you switch into ICR or Pay As You Earn, which have limitations on interest capitalization).

- Exiting IBR also means that you will not be eligible for the 25-year cancellation provision regardless of how long you have been in repayment (unless you switch into the ICR or Pay As You Earn plans, which have similar provisions).

- If you are working toward Public Service Loan Forgiveness and you exit IBR, you must switch into another qualifying repayment plan for your payments to continue to count toward PSLF. Learn about the requirements for PSLF in "**Chapter 4**: Public Service Loan Forgiveness."

Income-Contingent Repayment (ICR)

If you cannot benefit from IBR, you may find relief in the Income-Contingent Repayment (ICR) plan. This plan calculates your monthly payments on the basis of your adjusted gross income (plus your spouse's income if you're married and file your taxes jointly), family size, and the total amount of your Direct Loans.

Qualifying for Income-Contingent Repayment

Unlike IBR, there is no partial financial hardship threshold you must meet before enrolling in ICR. For this reason, even if you don't qualify for IBR, you still may benefit from ICR. You can use the **calculators** available at **FinAid.org** to compare what your payments may be under each plan.

Only certain loans are eligible for Income-Contingent Repayment

Only Federal Direct Loans are eligible for Income-Contingent Repayment. If you have FFEL Loans, you will need to convert these to Federal Direct if you wish to enroll them in ICR.

Eligible Federal Direct Loans include only Direct Subsidized and Unsubsidized Stafford Loans; Direct Grad PLUS Loans (**not** Parent PLUS Loans); and Federal Direct Consolidation Loans. Additionally, unlike IBR, Direct Consolidation Loans that repaid Parent PLUS Loans **are** eligible for ICR if you are a borrower who entered repayment on or after July 1, 2006. So if you have consolidated a Parent PLUS Loan and wish to enroll that federal consolidation loan in an income-driven plan, you may be able to enroll in ICR.

Which student loans are not eligible for ICR?

Commercial loans from state or private lenders are not eligible for ICR. Avoid borrowing private loans if you want to preserve the ability to enroll your loans in Income-Contingent Repayment.

Unlike IBR, FFEL Loans are not eligible for ICR. Any FFEL Loans must first be consolidated into Federal Direct before you may enroll in ICR.

Also, Parent PLUS Loans are not eligible for ICR. However, unlike IBR, Direct Consolidation Loans that repaid Parent PLUS Loans are eligible for ICR if you are a borrower who entered repayment on or after July 1, 2006.

Federal Perkins Loans are only eligible when they are part of a Federal Direct Consolidation Loan. But remember to consult with the school from which you obtained your Perkins Loan before consolidating it to find out whether you can benefit from Perkins cancellation. These provisions will be lost if Perkins Loans are consolidated.

TIP: If you do not know which loans you have, bookmark this page so you can return to it and go to "**Chapter 1**: Understanding Your Student Loans and Loan Consolidation" for an explanation.

Paying under Income-Contingent Repayment

Your lender or servicer will calculate your monthly payment amount using your adjusted gross income (including your spouse's income if you file your taxes jointly), family size and total outstanding Direct Loans.

However, while ICR considers the amount you owe in calculating your monthly payment, you will not pay more than 20 percent of your discretionary income.

You can estimate your loan payments using the Department of Education's **Repayment Estimator**.

Similar to IBR, ICR has a cancellation provision that cancels any principal and interest remaining on your loans if you enrolled in ICR and are still repaying after 25 years (time spent in forbearance or deferment other than an economic hardship deferment does not count).

Your spouse's income could affect your monthly payment amount

When married borrowers file joint income tax returns, both spouses' income and federal loan debts will be used in calculating your payment amount. If you **file a separate federal income tax return**, your income-contingent payment amount will be calculated solely on the basis of your federal student loan debt and adjusted gross income, rather than on the combined incomes of you and your spouse. You can estimate your monthly payments and compare scenarios using the Department of Education's **Repayment Estimator**. Because filing separately may result in a different tax rate and the loss of certain tax credits and deductions, you may wish to consult with a tax or financial professional to decide whether filing singly or jointly is best for you.

NOTE: If you have filed a joint income tax return before you enroll in ICR, **the Department of Education requires your servicer to calculate your eligibility and income-based payment amount based on your and your spouse's combined joint income and federal loan debt**. If you think it will be advantageous for you to have your eligibility and income-based payment amount calculated solely on the basis of your federal student loan debt and adjusted gross income, make sure you file singly before enrolling in ICR.

Interest accumulation in Income-Contingent Repayment

If your payments are not large enough to cover the interest that has accumulated on your loans, the unpaid amount will be capitalized (added to the loan principal) once each year. However, the amount of this capitalization is limited. If your principal becomes 10 percent greater than the amount you originally owed when you entered repayment, interest will continue to accrue but will not capitalize.

Selecting Income-Contingent Repayment

You may enroll in ICR for your eligible Federal Direct Loans:

- If you are entering repayment, select the Income-Contingent option on the IBR/Pay As You Earn/ ICR Request form. If you are unsure of your eligibility for ICR – or if you simply want to enroll in the income-driven plan (for which you are eligible) that will provide you with the lowest monthly payment – you can check the box in Section 2 of the form requesting to be placed in the plan with the lowest monthly payment amount.
- If you already are in repayment, contact your servicer and request to switch to the ICR plan.
- Federal Direct Loan borrowers (only Federal Direct loans are eligible for ICR) may apply in one step at **studentloans.gov** (either when entering repayment or switching plans).

You will need to provide your loan servicer with documentation of your adjusted gross income and certify your family size. You also will need to submit a copy of your most recent tax return or alternative documentation of income. Once you provide the requested information and certify your family size, your servicer will calculate your monthly payment amount.

Annual certification is required to continue income-contingent payments

You will need to submit the IBR/Pay As You Earn/ICR Request form and any required alternative documentation annually to certify your income and family size in order to continue paying an income-contingent amount in ICR. Your annual period will be based on the date you entered ICR (or the last time your payment amount was calculated) and your servicer will send you a notice requesting the information and setting a deadline by which it must be received. If you do not submit the documentation on time, you will be reverted to a standard 10-year payment amount. You should always make sure your servicer has your current address and be sure to provide requested information by any applicable deadlines.

Requesting a recalculated monthly payment amount

If your financial circumstances change, you have the right (but not an obligation) to request that your loan holder(s) recalculate your monthly ICR payment(s) before your annual certification date. This is also done using the using the IBR/Pay As You Earn/ICR Request form.

Choosing to leave ICR

Once you have enrolled in ICR, you may remain in the plan until you have completed repayment. However, based on your individual circumstances, you may choose to exit Income-Contingent Repayment before you have finished repaying your loans. For example, if your monthly payments under ICR become unaffordable, you may wish to switch to a standard or extended plan if one is available and would require lower payments.

Unlike IBR, if you exit ICR, you are not required to switch into a standard plan, but you may not switch into a plan with a shorter term of years than the time you've already spent in repayment.

- If you exit ICR, your interest capitalization will no longer be limited and any interest that has accrued and not yet capitalized will do so. Interest will continue to capitalize moving forward (unless you switch into IBR or Pay As You Earn, which have limitations on interest capitalization).
- Exiting ICR also means that you will not be eligible for the 25-year cancellation provision regardless of how long you have been in repayment (IBR and Pay As You Earn have similar provisions).

· If you are working toward Public Service Loan Forgiveness and you exit ICR, you must switch into another qualifying repayment plan for your payments to continue to count toward PSLF. Learn about the requirements for PSLF in "**Chapter 4**: Public Service Loan Forgiveness."

Pay As You Earn

In 2011, President Obama proposed the "Pay As You Earn" initiative to establish a 10 percent cap and 20-year cancellation for new borrowers beginning in 2012. The plan became available on December 21, 2012.

Qualifying for Pay As You Earn

There are two requirements that borrowers must meet to be eligible for these enhanced provisions: 1) They must have taken out loans after a certain date; and 2) They must demonstrate a "partial financial hardship."

Only borrowers who take out loans after a certain date – so called "new borrowers"* – are eligible for the plan. This requirement has two prongs:

· First, you must borrow your first federal loan on or after Oct. 1, 2007. If you had federal loans from before Oct. 1, 2007, you still can meet this test if you completely repaid those loans **before** taking out a new loan on or after Oct. 1, 2007.

· Second, you must receive a new loan, receive a disbursement on an existing loan, or consolidate your loans on or after Oct. 1, 2011.

* *Note that "new borrowers" under Pay As You Earn are defined differently than "new borrowers" under IBR. The definition for "new borrowers" under the IBR plan is set forth in the section above on* ***Income-Based Repayment****.*

As a result, many borrowers with loans from 2007 and earlier, many students who graduated in 2011 or earlier, and many borrowers already in repayment will not be able to benefit from these changes. However, if you do not meet both these requirements, you still may be eligible for IBR or ICR.

The second requirement is that eligible borrowers also must have a partial financial hardship (similar to IBR) to be able to enroll in Pay As You Earn. If the annual amount due on your outstanding Federal Direct and FFEL Loans under a standard 10-year repayment plan would exceed 10 percent of your “discretionary income,” you meet this threshold.

As with IBR, you will be able to choose whether to exclude your spouse’s income and debt by filing taxes separately, or you may file jointly to have these factors included in the calculations determining your partial financial hardship and monthly payment amount. Remember, if you have filed a joint income tax return before you enroll in Pay As You Earn, the Department of Education requires your servicer to calculate your eligibility and income-based payment amount based on your and your spouse’s joint income and federal loan debt. If you think it will be advantageous for you to have your eligibility and income-based payment amount calculated solely on the basis of your federal student loan debt and adjusted gross income, make sure you file singly before enrolling in Pay As You Earn.

Finally, **only Federal Direct Loans are eligible** for Pay as You Earn, so you will need to consolidate FFEL Loans into Federal Direct if you wish to take advantage of this plan.

TIP: If you do not know which loans you have, bookmark this page so you can return to it and go to “**Chapter 1**: Understanding Your Student Loans and Loan Consolidation” for an explanation.

Interest accumulation in Pay As You Earn

In addition to the lower 10 percent cap on payments and 20-year cancellation, many of the interest accrual protections of both IBR and ICR are available in Pay as You Earn.

As long as you have a partial financial hardship, you will receive the special interest treatment available under IBR in which interest accrues but does not capitalize and the government will cover any unpaid interest on subsidized loans for the first three years you are in the plan.

Interest will capitalize if you no longer have a partial financial hardship. However, if you remain in Pay As You Earn, this capitalization will be limited to 10 percent of the original amount you owed when you entered the plan. If you choose to exit the plan, interest will capitalize and there will not be a limit on the capitalization.

For new borrowers, the benefits may be considerable.

A look at how Pay As You Earn helps Dara Defender

The following example was calculated using the calculators at FinAid.org that are based on 2012 poverty line data. It is likely that your numbers may differ slightly, but these are some estimates from which to start. Note that, because of interest, Dara is expected to pay back more than she borrowed, but compare the substantial differences in the total amounts she would have to pay.

When we last met Dara, she had graduated with $50,000 in eligible unsubsidized federal loans. Her loans have a 6.8 percent interest rate and she is single. Dara took a job earning a salary of $35,000.

Dara meets both of the conditions necessary to enroll in Pay As You Earn. Since she borrowed her first federal loan in 2008 and her last loan in 2012, she is a "new borrower." And, since she owes $50,000 and only makes $35,000, her annual payments in a standard 10-year repayment plan would exceed 10 percent of her discretionary income, giving her a partial financial hardship.

During her first year in Pay As You Earn, Dara's monthly payments are around $152 (almost $100 less than IBR). Dara would pay more than three times as much – around $575 per month – under a standard 10-year repayment plan.

Dara receives annual salary increases of 3 percent and her monthly payments gradually rise. She remains in the plan for 20 years and in year 20, Dara earns about $61,373 and pays about $267 per month – still less than she would have had to pay under a 10-year plan.

At the end of year 20, Dara has **paid about $49,000** and her remaining balance of principal and interest (about $68,975) is cancelled.

Under a standard 10-year plan, Dara would have paid **about $69,048** and would have had to pay about $575 per month, a significant and likely unaffordable portion of her income. Under an extended plan, Dara would have paid **about $104,109** (twice the amount she borrowed) over 25 years and would have had to pay about $347 per month regardless of income. Under a graduated plan, Dara would initially pay about $288 per month, but these payments would rise gradually regardless of her income and she would pay **about $112,122** over 25 years.

You can compare the differences in payment and cancellation by using the **calculators** available at **FinAid.org**.

Selecting Pay As You Earn

If you are eligible, you may enroll in Pay As You Earn for your eligible Federal Direct Loans:

- If you are entering repayment, select the Pay As You Earn option on the IBR/Pay As You Earn/ICR Request form. If you are unsure of your eligibility for Pay As You Earn – or if you simply want to enroll in the income-driven plan (for which you are eligible) that will provide you with the lowest monthly payment – you can check the box in Section 2 of the form requesting to be placed in the plan with the lowest monthly payment amount.
- If you already are in repayment, contact your servicer and request to switch into the plan.
- Federal Direct Loan borrowers (only Federal Direct loans are eligible for Pay As You Earn) may apply in one step at **studentloans.gov** (either when entering repayment or switching plans).

You will need to provide your loan servicer with documentation of your adjusted gross income and certify your family size. You also will need to submit a copy of your most recent tax return or alternative documentation of income. Once you provide the requested information and certify your family size, your servicer will calculate your monthly payment amount.

Annual certification is required to remain in Pay As You Earn

You will need to submit the IBR/Pay As You Earn/ICR Request form and any required alternative documentation annually to certify your income and family size in order to continue paying an income-driven amount in Pay As You Earn. Your annual period will be based on the date you entered Pay As You Earn (or the last time your payment amount was calculated) and your servicer will send you a notice requesting the information and setting a deadline by which it must be received. If you do not submit the documentation on time, you will be reverted to a higher, standard 10-year payment amount. You should always make sure your servicer has your current address and be sure to provide requested information by any applicable deadlines.

Requesting a recalculated monthly payment amount

If your financial circumstances change, you have the right (but not an obligation) to request that your loan holder(s) recalculate your monthly Pay As You Earn payment(s) before your annual certification date. This is also done using the IBR/Pay As You Earn/ICR Request form.

Choosing to leave Pay As You Earn

Like IBR, once you have qualified for and enrolled in Pay As You Earn, you may remain in the plan until you have completed repayment. This is true even if you no longer have a partial financial hardship and your payments are recalculated to the standard 10-year amount. As long as you remain in Pay As You Earn, you will remain eligible for 20-year cancellation.

However, based on your individual circumstances, you may choose to exit Pay As You Earn before you have finished repaying your loans. For example, if you no longer have a partial financial hardship, your monthly payments will be recalculated and you may not be able to afford this amount. In this case, you may wish to switch to an extended plan if one is available and would require lower payments.

Unlike IBR, if you choose to exit Pay As You Earn, you will not be required to switch into a standard plan, but you may not switch into a plan with a shorter term of years than the time you've already spent in repayment.

- If you exit Pay As You Earn, any accrued interest that has not yet capitalized will do so and this capitalization will no longer be limited. Interest will continue to capitalize moving forward (unless you switch into IBR or ICR, which have limitations on interest capitalization).
- Exiting Pay As You Earn also means that you will not be eligible for the 20-year cancellation provision regardless of how long you have been in repayment (unless you switch into the IBR or ICR plans, which have similar provisions).
- If you are working toward Public Service Loan Forgiveness and you exit Pay As You Earn, you must switch into another qualifying repayment plan for your payments to continue to count toward PSLF. Learn about the requirements for PSLF in "**Chapter 4**: Public Service Loan Forgiveness."

Taxation of Cancellation in Income-Driven Repayment Plans

As of the date of publication, any amount that is cancelled after 25 or 20 years in IBR, ICR or Pay As You Earn is considered taxable income. However, if you are enrolled in one of these plans and receive Public Service Loan Forgiveness, that forgiveness is not taxable. You can learn more about Public Service Loan Forgiveness in **Chapter 4**.

chapter 04 Public Service Loan Forgiveness

If you plan to work in public interest, the Public Service Loan Forgiveness program is one of the most significant breakthroughs in a generation. Established by the College Cost Reduction and Access Act of 2007, Public Service Loan Forgiveness (PSLF) offers forgiveness for your eligible Federal Direct Loans after you make 120 qualifying monthly payments on eligible Federal Direct Loans while working full time in a qualifying public service position.

The benefits can be considerable when combined with qualifying income-driven repayment plans such as IBR, ICR or Pay As You Earn.

TIP: Go to "**Chapter 3**: Income-Driven Repayment Plans" for a detailed explanation of these repayment plans.

Dara Defender uses IBR while she earns Public Service Loan Forgiveness

The following example was calculated using the calculators at FinAid.org that are based on 2012 poverty line data. It is likely that your numbers will differ slightly, but these provide some estimates from which to start. Note that, because of interest, Dara is expected to pay back more than she borrowed, but compare the substantial differences in the total amounts she would have to pay.

Dara graduates with $50,000 in eligible Federal Direct Loans. Her loans have a 6.8 percent interest rate and she is single.

Dara begins qualifying public service employment earning a salary of $35,000. Because she owes $50,000 and only makes $35,000, Dara has a partial financial hardship (owes more than 15 percent of her discretionary income) and is eligible for IBR. During her first year in IBR, Dara's monthly payments are around $228. Dara would pay more than twice as much – around $575 per month – under a standard 10-year repayment plan.

Dara receives annual salary increases of 3 percent and her monthly payments under IBR gradually rise. In year 10, Dara earns about $49,816 and her monthly payments are about $298 – a little more than half of what she would have had to pay under a 10-year plan.

Dara remains in public service and **pays about $31,374** over 10 years in IBR. She applies for and the federal government grants her PSLF, and her remaining balance of about **$52,614 is forgiven**.

Under a standard 10-year plan, Dara would have paid **about $69,048** and would have had to pay about $575 per month regardless of income. Under an extended plan, Dara would have paid about **$104,109** (twice the amount she borrowed) over 25 years and would have had to pay about $347 per month regardless of income. A graduated plan would have allowed Dara to start with smaller initial payments, but these payment amounts would rise over time and she would repay **about $112,122** over the course of 25 years.

Dara's Basic Options for Repaying $50,000 in Student Debt While Working in Public Interest

Dara's initial starting salary is $35,000 and she earns 3% annual raises

	Income Based Repayment	10-Year Standard	25-Year "Standard"	Graduated Repayment
Total Years in Repayment	10	10	25	25
Approximate Monthly Payment Amount	$228 to $298	$575 (constant)	$347 (constant)	$288 to $342
$25,000	$31,374	$69,048	$104,109	$112,122
$30,000	$52,614	$0	$0	$0

It is important to make sure you take the right steps now so you can apply for – and receive – forgiveness after making your 120 qualifying monthly payments.

There are four crucial steps to earning Public Service Loan Forgiveness

· **Step 1**: Make sure you have eligible loans.

· **Step 2**: Make sure you are working full time in qualifying employment.

· **Step 3**: Make 120 qualifying payments on those eligible loans while you're in qualifying employment.

· **Step 4**: Apply for forgiveness!

We will go over each of these steps in detail so you know what to do to qualify for forgiveness. You also should use Equal Justice Works' Public Service Loan Forgiveness **Checklist** to help you stay on track.

Step 1: Eligible Loans

The first step in working toward Public Service Loan Forgiveness is to make sure you have the right types of federal loans. **Only Federal Direct Loans are eligible for Public Service Loan Forgiveness**, which means that only payments made on Federal Direct Loans count toward the required 120 qualifying payments and only Federal Direct Loans will be forgiven. Only Federal Direct Subsidized Stafford, Unsubsidized Stafford (now referred to as Direct Subsidized and Direct Unsubsidized), Grad PLUS, Parent PLUS and Federal Direct Consolidation Loans are eligible.

This is an important step to consider whenever you are borrowing or consolidating your loans. If you want to qualify for PSLF, make sure you are borrowing federal loans and avoid private or commercial loans, which are never eligible for government forgiveness. And if you have FFEL Loans and want to make sure all your loans qualify for PSLF, consolidate your FFEL Loans into a Federal Direct Consolidation Loan.*

** When consolidating, try to avoid including Federal Direct Loans on which you've already made qualifying payments. Consolidating these loans replaces these loans with a new consolidation loan and will reset the payment count.*

TIP: If you do not know which loans you have or how loan consolidation works, bookmark this page so you can return to it and go to "**Chapter 1**: Understanding Your Student Loans and Loan Consolidation" for an explanation.

Step 2: Qualifying Employment

To qualify for Public Service Loan Forgiveness, you'll need to be working full time in a qualifying public service position while you make each of your 120 qualifying payments.

What is full-time?

The Department of Education's final regulations define "full-time" as working in qualifying employment in one or more jobs for the greater of:

· An annual average of at least 30 hours per week.*

** You may combine one or more part-time jobs to reach the required average of 30 hours per week, but each of your employers must qualify. For example, you may work part time for the government and part time for a 501(c)(3) and add these hours together to reach 30 hours per week.*

· For a contractual or employment period of at least 8 months, an average of 30 hours per week.

For example: Many teachers are employed under periodic contracts. To qualify, they would have to work an average of 30 hours a week over the term of the contract, which must be a period of at least 8 months.

· Or, unless the qualifying employment is with two or more employers, the number of hours the employer considers full-time.

For example: If your employer considers a full-time position to require 40 hours per week, you must be working 40 hours per week to qualify, but if you are working two part-time qualifying jobs, these will need to add up to only 30 hours per week.

NOTE: In meeting the full-time requirement, you cannot include time spent on job duties that are related to religious instruction, worship services, or any form of proselytizing.

TIP: If you take vacation or leave time provided by your employer, or take leave pursuant to the Family and Medical Leave Act, this is not counted against you when calculating the annual or contractual average hours you have worked.

Only certain types of employment qualify

· **Federal, state, local or tribal government**: You may work for any level of government: a local, State, Federal or Tribal government organization, agency or entity. You may be employed in any position, with one exception: you may not be a member of the U.S. Congress. However, you may work in Congress or for a Senator or Representative.

- **A 501(c)(3) nonprofit organization:** Employment at a nonprofit organization as defined under section 501(c)(3) of the Internal Revenue Code that is exempt from taxation under section 501(a) of the Internal Revenue Code is qualifying employment. While you may be employed in any position, the Department of Education has indicated that religious instruction, worship services or any form of proselytizing is not qualifying employment. If you are employed by a 501(c)(3) organization that engages in these activities, at least 30 hours or more of your time must be spent on activities that do not constitute religious instruction, worship services or any form of proselytizing.

- **A full-time AmeriCorps position**: Working in a full-time position approved by the Corporation for National and Community Service under Section 123 of the National and Community Service Act of 1990 qualifies.

- **The Peace Corps**: If you are working in a full-time assignment under the Peace Corps Act, this work will count as qualifying employment.

- **A private "public service organization"**: A private public service organization is a nonprofit organization (that is not organized under Section 501(c)(3)) that provides the following services*:

    - Emergency management
    - Military service
    - Public safety
    - Law enforcement
    - Public interest law services
    - Early childhood education (including licensed or regulated health care, Head Start, and State funded pre-kindergarten)
    - Public service for individuals with disabilities and the elderly
    - Public health (including nurses, nurse practitioners, nurses in a clinical setting, and full-time professionals engaged in health care practitioner occupations and health care support occupations, as such terms are defined by the Bureau of Labor Statistics)
    - Public education
    - Public library services

- School library or other school-based services

** Many of these terms are further defined in the regulations and are not as broad as they seem. Don't assume you will qualify without first checking with the Department of Education.*

In addition, regardless of the services it provides, a private public service organization cannot be a business organized for profit, a labor union, a partisan political organization, or an organization engaged in religious activities.

Additional points you need to know about qualifying employment

- You can combine two or more jobs to reach the full-time requirement, but each employer must qualify and your positions must add up to at least 30 hours per week.
- Your qualifying employer(s) must be the one(s) paying you. This means that volunteer work at a 501(c)(3) will not count as qualifying employment.
- You can switch jobs! As long as you switch to another qualifying employer and work full time, your new employment will qualify.

Step 3: Qualifying Payments

Each payment must be made separately, on time, and for the full monthly amount due. **In addition, you must be in one of these qualifying repayment plans:**

- A Standard Repayment Plan based on a **10-year** repayment schedule;
- A repayment plan in which you make monthly payments that are at least as much as the monthly amount required under Standard Repayment over a 10-year repayment period*;

** But under such a plan, only the payments that are at least as much as the standard 10-year amount would count.*

For example: If you were in a graduated repayment plan where your payments started out low and then increased, only those payments that were at least as much as the standard 10-year amount would qualify.

- Income-Contingent Repayment (ICR);
- Income-Based Repayment (IBR); or
- Pay As You Earn

IBR, ICR or Pay As You Earn will be the preferred repayment plan for most borrowers who ultimately will earn PSLF because these plans will help ensure your monthly payments are affordable and that you receive the full forgiveness you have earned in return for your public service.

TIP: If you do not know which repayment plan is better for you, refer to "**Chapter 3**: Income-Driven Repayment Plans" for an explanation. Do not choose an extended repayment plan as they do not qualify for PSLF. Likewise, steer clear of graduated repayment plans because not all payments made under these plans will qualify, and be wary of "standard" plans if you have a consolidation loan because they may have a term other than 10 years and so will not qualify.

If you still have questions about how income-driven repayment plans work with PSLF, register for a free **informational webinar** hosted by Equal Justice Works to learn more.

Additional points you need to know about qualifying payments

- **Qualifying payments do not need to be consecutive**. While you must be working in qualifying public service employment for payments made on your Federal Direct Loans to count toward PSLF, your payments do not need to be consecutive. You may take time off* from your eligible employment (for example, to take a nonqualifying position or to leave the workforce).

  * *Payments still must be made on your loans during this time (unless you are in deferment or forbearance) but they would not count toward the 120 qualifying payments required for PSLF. However, when you are back in full-time eligible employment, payments will begin to count again – and the count will pick up where you left off.*

- **Protect your payments.** Be careful not to consolidate loans on which you've already made qualifying payments. The Department of Education has indicated that subsequently consolidating Direct Loans on which you've already made qualifying payments toward PSLF will restart the count for these loans.
- **Watch out for Nonqualifying Payments!** Only payments made **after Oct. 1, 2007**, on eligible Federal Direct Loans qualify. In addition, the following payments **do not** count toward the 120 required:

- Payments made under a fixed term repayment plan with a term of more than 10 years (for example, 12 or 30 years);
- Payments made while not working in full-time qualifying public service employment;
- Payments made on ineligible loans (e.g., FFEL Loans, Perkins Loans);
- Payments not made within 15 days of the due date; and
- Payments made while you are in default.

NOTE: If you are choosing a repayment plan for a Federal Direct Consolidation Loan and select the "Standard Repayment" option, your repayment term will differ based on how much you owe. "Standard Repayment" on a Direct Consolidation Loan will **not** count if the term is longer than 10 years.

TIP: Consider avoiding large, lump-sum payments on your eligible loans. Unless you fall within a narrow exception for Segal AmeriCorps Education Awards, a lump-sum payment will count as only one qualifying payment regardless of the amount you submit.

Step 4: Apply for Forgiveness!

After you make your 120th qualifying payment, you will need to submit the PSLF application to receive loan forgiveness. The application is under development and will be available before October 2017, which is the earliest that borrowers will begin to be eligible to apply for forgiveness. You must be working for a qualifying public service organization at the time you submit the application for forgiveness and at the time the remaining balance on your loan is forgiven.

In the meantime, you should *keep track of your employment!*

You will have to show the Department of Education that you have been working in qualifying employment. Therefore, it is important that you keep copies of your W-2s, pay stubs and any other documents you may have that will show your employment history.

In addition to keeping this documentation, you should submit regularly the Employment Certification for Public Service Loan Forgiveness form created by the Department of Education to assist you in tracking your periods of qualifying employment and your qualifying payments. It also will provide you with some certainty that your employment qualifies.

You will need the following materials to track your employment (which also can be found on the Equal Justice Works website):

- **Dear Borrower Letter**
- **Instructions for Completing Employment Certification for Public Service Loan Forgiveness**
- **Employment Certification for Public Service Loan Forgiveness**

Follow the steps outlined in the Department of Education's **Dear Borrower Letter** when submitting the form.

After you submit the form, you will be notified of the following: whether your employment qualifies, the total number of qualifying payments you have made, and how many payments still need to be made before you qualify and can apply for Public Service Loan Forgiveness.

Using the certification form allows you to obtain your employer's certification of employment while you are still employed at an organization, or shortly after leaving, and receive confirmation that payments made on your Direct Loans during that period of employment qualify, rather than attempting to compile information years after you may have worked at an organization.

While use of the form is not required, it is the only way the Department of Education's loan servicer will keep track of your progress toward meeting the PSLF eligibility requirements. We suggest you submit the form annually, but you may submit the form less frequently to cover more than one year's employment. You also may use the form to cover more than one employer.

If you do not periodically submit the form, you still will be required to submit a form for each employer that you want considered for PSLF at the time that you apply for forgiveness. Tracking progress as you go may be easier than gathering 10 years' worth of information at once (and may save you time when you're applying for forgiveness). And remember to keep copies of everything you send in!

Public Service Loan Forgiveness Is Not Taxed

Forgiveness received through the Public Service Loan Forgiveness program is not considered taxable income.

Generally, income from the cancellation of debt is taxable, but under Section 108(f) of the Internal Revenue Code, certain student loan forgiveness may be excluded from taxable income if forgiven as a result of the borrower working for a certain period "in certain professions for any of a broad class of employers."

The U.S. Department of the Treasury confirmed in a September 19, 2008 **letter** to members of Congress that Public Service Loan Forgiveness under the College Cost Reduction and Access Act meets the requirements of **Section 108(f)** and is therefore not taxable income to the borrower.

To learn more about how Public Service Loan Forgiveness works, register for a **free informational webinar** hosted by Equal Justice Works.

chapter 05 Loan Repayment Assistance Programs

Loan Repayment Assistance Programs (LRAPs) are a powerful tool to help you manage repayment of your educational debt. These programs help you make payments on your educational loans and are available from a variety of sources, including schools, employers, professional associations, states and the federal government.

How do they work?

LRAPs differ from repayment plans like IBR, Pay As You Earn and ICR, and from loan forgiveness programs like PSLF. Rather than lowering your payment amount or providing forgiveness of your educational loans in the future, LRAPs provide funds now to help make payments on your loans.

You may be able to use LRAP funds to help pay down any private educational loans, which can be a tremendous help because private loans are never eligible for federal relief programs.

It also may be possible to use LRAPs in conjunction with some federal relief programs.

For example: You may be working in qualifying employment for Public Service Loan Forgiveness and enrolled in IBR to receive lower income-based payments on your Federal Direct Loans. If you qualify for an LRAP, these funds may cover your income-based monthly payments until you make 120 of them and the government grants you forgiveness.

But LRAPs also are an important tool to help borrowers who may not benefit from income-driven repayment plans or Public Service Loan Forgiveness. For example, more experienced public service workers who graduated before 2007 often fit into this category because they may have high private loan debt or have already spent years in repayment. LRAPs can provide an important form of relief for these borrowers.

Who provides LRAP assistance?

LRAPs may be available from schools, employers, professional associations, states and the federal government. You'll need to do some research, but you may have an LRAP available to you.

School-Based LRAPs

School-based Loan Repayment Assistance Programs provide financial aid to graduates who have educational debt and take low-paying jobs. Most programs are designed with the goal of enabling graduates to enter public interest and government work. A graduate of a school with a Loan Repayment Assistance Program can apply to receive funds from the program to help with repayment of educational loans.

State-Based LRAPs

States also may offer LRAPs that can ease the burden of educational debt. State-based LRAPs may be created and administered by state education administrations, independent nonprofit organizations and professional associations or foundations. Some municipalities also have begun to offer LRAPs to graduates as an incentive to relocate to and work in the area.

Federal Government LRAPs

Loan Repayment Assistance Programs are available from the federal government for many who choose to pursue work in areas of high need.

Various programs exist for those who perform certain volunteer work; are in military service; teach; practice medicine in certain communities; or practice law as a state or local prosecutor or as a public defender.

Each program has its own eligibility criteria and application process. For more information on specific programs, visit the **Loan Forgiveness** Page at **FinAid.org**.

Don't forget: **Public Service Loan Forgiveness** is a separate program and can help many with high student debt and low salaries working in qualifying public service employment, including in government or 501(c)(3) nonprofit organizations, regardless of specific profession.

Independent Nonprofit and Professional Association LRAPs

An increasing number of independent nonprofit organizations and professional associations are offering LRAPs to help many who serve their communities. If you are in a particular field or work with nonprofit organizations, check to see if an LRAP may be available for you.

Employer LRAPs

Many employers, including nonprofit and government employers, provide Loan Repayment Assistance Programs for the benefit of their employees with student debt. Employers often design their programs to enable them to recruit and retain qualified staff and overcome the hurdle of lower public interest salaries.

Ask your employer or prospective employer if there is a program that can help you

The availability and specifics of employer LRAPs are as varied as employers themselves and you'll want to ask about the important details.

Tax treatment of employer-based LRAPs

Unlike school-based and government LRAPs, most employers are not able to structure their programs as forgivable loans. As a result, benefits received under an employer-based LRAP typically are taxable income to the recipient.

Assistance is available for employees of some federal agencies

Federal agencies are authorized by statute to set up Loan Repayment Assistance Programs to recruit and retain highly qualified employees. The U.S. Office of Personnel Management (OPM) has created a Student Loan Repayment Program **Fact Sheet**.

Participating agencies determine their own program requirements within the requirements of **5 U.S.C. 5379**:

- Agencies are authorized to provide up to $10,000 per calendar year with a lifetime limit of $60,000.

- Recipients of loan repayment assistance must agree to a three-year service obligation.
- Only federal student loans are eligible for assistance. Eligible loans include:
  - Federal Direct and FFEL Stafford Loans (Subsidized and Unsubsidized)
  - Federal Direct and FFEL PLUS Loans
  - Federal Direct and FFEL Consolidation Loans
  - Federal Perkins Loans: National Defense Student Loans, National Direct Student Loans, Perkins Loans
  - Public Health Service Act Loans: Loans for Disadvantaged Students (LDS), Primary Care Loans (PCL), Nursing Student Loans (NSL), Health Professions Student Loans (HPSL), Health Education Assistance Loans (HEAL)

A **list** of federal agencies providing loan repayment assistance can be found on the Equal Justice Works website.

The U.S. Office of Personnel Management (OPM) submits annual reports to Congress on federal agencies' Loan Repayment Assistance Programs including:

- The number of employees who received student loan repayment benefits;
- The job classifications of the employees who received student loan repayment benefits; and
- The cost to the federal government of providing student loan repayment benefits.

Important Questions To Ask About Any LRAP

What does your Loan Repayment Assistance Program look like? Not all LRAPs are created equally. Programs have different requirements, restrictions and benefits. Some things to consider are varying payment amounts and duration of eligibility, whether you'll be able to benefit from more than one LRAP at the same time, and whether your LRAP money is taxable.

Equal Justice Works has compiled some important questions you should ask about any LRAP.

The Basics

Q: How much assistance does the program provide?

You'll want to know how much the program's payments are and whether these are disbursed on a monthly or annual basis.

Q: Is there a cap on total assistance?

You'll want to know whether your eligibility will end once you've received a certain amount in payments.

Q: How are other LRAP benefits considered?

Will you be able to take advantage of other available LRAPs, for example, from the government, your employer or your school? If so, will the amount you receive affect your ability to qualify for assistance from this program? Will it affect the amount you receive through this program?

Q: How is the LRAP funded?

Is there a sole funder? Do funds come from the institution's general fund? Are you able to rely on the availability of funds in the future?

Q: Is the LRAP structured as a forgivable loan or as a grant?

The answer to this may determine whether your LRAP is taxable. Grants may be taxable, while forgivable loans may be structured so they are not taxable income. An **Official Revenue Ruling** states that most law school-based loan forgiveness programs meet the requirement of 108(f) and will not be taxed.

Basic Requirements

Q: Which student loans are eligible?

Does the LRAP cover loans from undergraduate and graduate or professional studies? Does it cover graduate studies outside the degree received from that school or not required for that employment? Will you be able to use the LRAP to pay down private as well as government loans?

Q: What service obligation do I have and for how long?

Is there an employment requirement and must you work for a certain number of years to qualify?

Q: Is there a limit on how long I can participate?

There are two components to this query: First, are you eligible only for a certain number of years after graduation? Second, will you no longer be eligible after you've participated and received assistance for a certain number of years?

Employment

Q: What employment qualifies?

For example, must you be working in the public interest? Does the program define "public interest?"

Q: Must I have a specialized license?

Does the program require you to have passed an exam or receive specific certification? For example, for a law school LRAP, must you have passed the bar exam and do you need to be in employment that requires a law license or degree?

Q: Must I be practicing in a certain profession?

Does the program require you to be employed in a certain type of position? For example, must you be practicing medicine?

Income

Q: Is there an income cap and what is it?

Will you no longer be eligible if your salary increases?

Q: How is "income" calculated?

For example, will the program count your spouse's income? Will it count any inheritance or assets against your income?

Additional Questions To Ask When Researching State-Based LRAPs

When researching state-based LRAPs, you'll want to ask a few more specific questions:

Q: Is there a program where I want to work and within my profession?

The first question you should always ask! Many states and professional associations* offer LRAPs, and some municipalities are beginning to offer LRAPs.

** Lawyers:* ***check the ABA's list*** *to see if there is a program where you want to practice.*

Q: What employment is covered?

Depending on your field, the definition for employment may be narrow or broad. For example, for lawyers, most states* include civil legal aid and some include public defense, prosecution and other government and nonprofit legal organization work.

** Lawyers: check the* ***ABA's information on eligible employment*** *to see if you qualify for your state's LRAP.*

Q: Must I live in the state?

States typically require you to be working within the state. You'll want to know whether you must live in the state as well.

Q: Are graduates of state schools given preference?

You'll want to know whether there is a preference in the order of assistance, especially if there are limited funds available.

To learn more about how LRAPs work, register for an **informational webinar** hosted by Equal Justice Works.

chapter 5A Loan Repayment Assistance Programs for the Legal Profession

Law School LRAPs

LRAPs exist at more than 100 law schools, providing financial aid to law school graduates working in public interest, government or other low-paying, high-need legal fields.

Equal Justice Works is a leading advocate for LRAPs at law schools and maintains a **list of LRAPs** at various law schools. We offer comprehensive information about school-based programs, including how they work and how to start or revise a law school-based LRAP.

For information about starting or revising an LRAP at your school, contact us at **debtrelief@equaljusticeworks.org**.

State-Based LRAPs in the Legal Profession

LRAPs for the legal profession are available in many states. Almost all of these LRAPs require recipients to be practicing law in "qualifying employment" within the state. Characteristics of state LRAPs vary, but definitions of "qualifying employment" in all states include civil legal aid, and in some states include public defense, prosecution and other government and nonprofit legal organization work.

The American Bar Association in collaboration with Kelly Carmody of Carmody & Associates maintains a **listing of statewide LRAPs**. The ABA also maintains information about pending and enacted legislation to create statewide Loan Repayment Assistance Programs.

If your state doesn't have an LRAP, the ABA has a **State LRAP Toolkit** that can be used as a resource for creating a state-based LRAP.

The Federal John R. Justice Student Loan Repayment Program

The John R. Justice Student Loan Repayment Program (JRJ) was established by the John R. Justice Prosecutors and Defenders Incentive Act of 2008 and provides loan repayment assistance for local, state and federal public defenders and local and state prosecutors who agree to remain employed as public defenders and prosecutors for at least three years.

Funds are allocated annually from the Bureau of Justice Assistance (BJA) and awarded and administered by designated state agencies. Repayment and awarded benefits cannot exceed $10,000 in any calendar year or an aggregate total of $60,000 per attorney, and each state must allocate grants equally between prosecutors and public defenders, giving priority to those eligible beneficiaries who have the "least ability to repay their loans."

Eligible Attorneys

JRJ is open to state and federal public defenders and state prosecutors who agree to remain employed as public defenders and prosecutors for at least three years. In addition, all eligible attorneys must be "continually licensed to practice law."

The following definitions apply to eligible attorneys:

- Eligible **prosecutors** are full-time employees of a state or unit of local government (including tribal government), who "prosecute criminal or juvenile delinquency cases at the state or unit of local government level."
- **Public defenders** are either full-time employees of a unit of state or local government (including tribal government), or full-time employees of a nonprofit organization operating under a contract with a state or unit of local government, who "provide legal representation to indigent persons in criminal or juvenile delinquency cases."
- Full-time **federal defender attorneys** in a defender organization providing legal representation to indigent persons in criminal or juvenile delinquency cases pursuant to Subsection (g) of section 3006A of Title 18, United States Code are eligible.
- Attorneys providing supervision, education, or training of other persons providing prosecutor or public defender representation also are eligible.

The following attorneys are **not eligible** for JRJ grants:

- Prosecutors who are employees of the federal government are **not** eligible.
- Attorneys who are in private practice (and not a full-time employee of a nonprofit organization) are not eligible, even if providing public defense services under contract to the state.
- An attorney must not be in default on repayment of any federal student loans.

Applying for John R. Justice funds

You must follow the procedure set forth by your designated state agency. You can find a list of **designated state agencies** on the BJA's website.

If you receive a John R. Justice award, you will need to commit to and complete a three-year service requirement. You will need to certify your continued employment as an eligible attorney.

- **Bureau of Justice Assistance John R. Justice Student Loan Repayment Program Information Page**
- **John R. Justice Student Loan Repayment Program (JRJSLRP) Service Agreement Fillable PDF Form**
- **Bureau of Justice Assistance John R. Justice Frequently Asked Questions**

John R. Justice funds may only be used to repay certain loans

Federal student loans (FFEL, Federal Direct and Perkins Loans) are eligible for assistance; however, loans in default, Parent PLUS Loans, federal consolidation loans that repaid a Parent PLUS Loan, and private, commercial or alternative student loans are not eligible.

Taxability of John R. Justice loan forgiveness

Recipients of John R. Justice funds should read carefully this **Dec. 31, 2012 informational letter** from the Internal Revenue Service regarding the exclusion of loan forgiveness under the program from gross income. Keep in mind that the letter specifically states that "[i]t is intended for informational purposes only and does not constitute a ruling."

State by State Administration

Governor-designated state agencies (or in the case of Washington, D.C., a Mayor-designated agency conduct outreach and education, solicit applications from eligible recipients, and administer the JRJ Program in each state. Each designated state agency is eligible to apply for funding to distribute equally between prosecutors and defenders within their state.

Funds are available to states based on the total population of each state with a minimum base allocation of $100,000. Funding varies each year and is dependent upon Department of Justice appropriations. States did receive **$3.3 million in 2013** and $1.7 million was **allocated for FY14**. The **John R. Justice page** of BJA's website posts updates, program guidance, allocation amounts and frequently asked questions.

Resources for Designated State Agencies

The BJA issues Program Application Guidance for state agencies and Equal Justice Works, in consultation with the BJA, has developed a description of the grant application process, sample State JRJ Program Guidelines and a sample Application. These materials are designed to assist managers of the designated state agencies who have been charged with the responsibility of administering John R. Justice funds in their state.

- **John R. Justice Grant Program Process**
- **John R. Justice (JRJ) FY 2014 Program Application Guidance**
- **FY 2013 Program Application Guidance**
- **FY 2013 Allocations to States**
- **FY 2013 Frequently Asked Questions**

- **Sample State John R. Justice Program Guidelines Explanation and Instructions**
- **Sample State John R. Justice Program 2010 - 2011 Guidelines**
- **Sample State John R. Justice 2010 - 2011 Application**
- **State of Illinois JRJ Program Narrative**

Employer-Based Assistance for Public Interest Lawyers

Facts about Employer-Based LRAPs from the 2014 biennial NALP (The Association for Legal Career Professionals) Public Sector & Public Interest Attorney Report:

- 56 organizations reported having an LRAP program in 2010 (35 civil legal services organizations, 4 public defender offices, 9 local prosecuting attorney offices, and 8 other public interest organizations).
- 561 attorneys were reported to have received an award in the most recent fiscal year.

The Legal Services Corporation provides LRAP funding to attorneys employed by its grantee programs through the Herbert S. Garten Loan Repayment Assistance Program

Attorneys receive forgivable loans of up to $5,600 per year for up to three years (dependent upon continuing eligibility and funding). The funds must be used to pay qualifying law school loans and participating attorneys are expected to remain with an LSC-funded legal services program for three years.

More information can be found on the program's **information page** or by contacting **LRAPcoordinator@lsc.gov.**

Appendix A: Educational Debt Relief Fact Sheets and Checklists

Because the burden of educational debt is a significant barrier to happiness and career success, Equal Justice Works provides expertise to prospective and current students, graduates, advisors and employers on available relief programs so you have the information you need when making important decisions.

Additional Information To Help You Get Started

- **Public Service Loan Forgiveness Checklist**
- **Eligible Loans Summary**
- **Qualifying Employment Summary**
- **Qualifying Payments Summary**

More Resources at Equal Justice Works

An Online Educational Debt Relief Resource Center: Find comprehensive information on available relief programs at **equaljusticeworks.org**, including Income-Based Repayment, Public Service Loan Forgiveness and Loan Repayment Assistance Programs for attorneys.

Monthly Webinars: Equal Justice Works hosts free monthly webinars on the details of available educational debt relief programs. **Register** for these webinars on our website.

Huffington Post Blog: Equal Justice Works' educational debt relief experts provide periodic insight and guidance on the organization's **Huffington Post** blog.

Visits to Your School or Office: Our educational debt relief experts are available to present at your school or office so that your students, employees and colleagues know how educational debt relief programs can help ease their student debt burden. We also are available to provide guidance on creating or revising loan repayment assistance programs.

Stay Connected for News, Updates and Tips!

Educational debt relief options and procedures are changing rapidly. **Join our mailing list** to receive important updates on educational debt, including regulatory and programmatic changes, news, new forms of relief, upcoming events and webinars.

Follow us on Twitter and like us on Facebook for breaking news and tips:

@EJW_org #StudentDebtHelp

www.facebook.com/EqualJusticeWorks

Appendix B: Educational Debt Relief Frequently Asked Questions

We receive many questions about educational debt relief programs. The questions we receive most frequently are about Public Service Loan Forgiveness and Income-Based Repayment.

Here are some answers to help you get started. Be sure to register for a **free informational webinar** to learn more about educational debt relief programs. For more information on IBR, other income-driven repayment plans (including the new Pay As You Earn plan) and Public Service Loan Forgiveness, go to "**Chapter 3**: Income-Driven Repayment Plans" and "**Chapter 4**: Public Service Loan Forgiveness."

Q: Will Public Service Loan Forgiveness and Income-Based Repayment be around for the foreseeable future? Will they be eliminated by Congress?

Unlike many government programs, these are not subject to appropriations or the budgetary process. It would take an act of Congress to take away Public Service Loan Forgiveness and Income-Based Repayment from borrowers. It should be noted, however, that President Obama's Fiscal Year 2015 budget proposal included not only new initiatives to help student loan borrowers, including expanding eligibility for Pay As You Earn, but also to cap Public Service Loan Forgiveness at the aggregate loan limit for independent undergraduate students, which is currently set at $57,500. While it is unlikely to be any wholesale elimination of these programs, It is possible that a future Congress could enact a cap on forgiveness, or similar limiting measures.

There are no guarantees, but even if a future Congress reconsidered Public Service Loan Forgiveness, it is our belief that there is good chance that borrowers who are already in repayment will be grandfathered into Public Service Loan Forgiveness. However, borrowers counting on earning loan forgiveness should make sure they complete all the requirements. For example, they should make sure they have Federal Direct loans, choose a qualifying repayment plan, and send in the Public Service Loan Forgiveness Employment Certification Form regularly. Borrowers also should keep an eye on any potential reforms and let their elected officials know how important PSLF is to their ability to serve the public.

Q: Do I have to choose between my Loan Repayment Assistance Program and the federal programs?

Not necessarily. Public Service Loan Forgiveness and income-driven repayment plans do not preclude you from participating in institutional, government or employer LRAPs, but occasionally those LRAPs will not allow you to participate in both. You should confirm with the administrator of your LRAP before enrolling.

Q: Which repayment plan should I choose?

Most of our responses to these FAQs use IBR as an example, but IBR may not necessarily be the best plan for you. For example, if you qualify for the new 10 percent cap on payments under Pay As You Earn, this may be better for you. But even this will depend on your individual circumstances and future career plans. Use the **calculators** available at **FinAid.org** to help see how you may fare under different plans. You also may wish to consult a tax or financial adviser if you have additional questions regarding your situation.

Q: How can I determine if I qualify for the IBR plan? Where can I get an estimated IBR monthly payment amount?

The **U.S. Department of Education's Federal Student Aid website** includes a **Repayment Estimator**. **The Repayment Estimator** allows you to determine whether you are likely to qualify for the IBR Plan, and to estimate what your IBR monthly payment would be. However, for an official determination of your eligibility for IBR, you'll need to apply. If you have Direct Loans, you can do this at **studentloans.gov** (some FFEL borrowers will be able to so as well, so log in to check). If you have FFEL loans, and are unable to apply through **studentloans.gov**, contact your loan servicer. If you are unsure who holds your loans or who your loan servicer is, you can access this information through the **National Student Loan Data System website**.

Q: What will my monthly payment be under IBR?

Annual educational debt payments under IBR are capped at 15 percent* of discretionary income (adjusted gross income minus 150 percent of the poverty level for your family size). *Because the following example uses the Federal Poverty Guideline in place as of January 2012 for a household of one, it is likely that your numbers will differ slightly, but here is an estimate from which to start:*

> **Example:** Dara graduates with $50,000 in eligible unsubsidized federal loans. Her loans have a 6.8 percent interest rate and she is single.

Dara takes a job earning a salary of $35,000. Because she owes $50,000 and only makes $35,000, Dara has a partial financial hardship (owes more than 15 percent of her discretionary income) and is eligible for IBR. During her first year in IBR, Dara's monthly payments are around $228. Dara would pay more than twice as much – around $575 per month – under a standard 10-year repayment plan.

Dara receives annual salary increases of 3 percent and her monthly payments under IBR gradually rise. She remains in IBR for 25 years and in year 25, Dara pays about $464 per month – still less than she would have had to pay under a 10-year plan.

At the end of year 25, Dara has paid about $99,780 and her remaining balance of principal and interest (about $26,358) is cancelled.

** "New borrowers" in IBR have their payments capped at 10 percent of discretionary income. Read more about "new borrowers" in IBR in the section on **Income-Based Repayment**. You should also read the section on **Pay As You Earn**.*

Q: Which student loans are eligible for IBR?

Federal Direct Loans and federally guaranteed loans (FFEL) are eligible, including: Subsidized and Unsubsidized Stafford Loans; Grad PLUS Loans (not Parent PLUS Loans); and Federal Consolidation Loans (but not consolidation loans that repaid a Parent PLUS Loan).

However, only Federal Direct Loans (including Federal Direct Consolidation Loans) are eligible for Public Service Loan Forgiveness, so if you intend to utilize IBR while working toward PSLF, make sure you are doing so with Federal Direct Loans.

Q: Which student loans are NOT eligible for IBR?

Loans made by a state or private lender that are not guaranteed by the federal government are never eligible. Also, Parent PLUS Loans are not eligible for IBR, nor are consolidation loans that repaid Parent PLUS Loans, so try to avoid including Parent PLUS Loans in your consolidation loan if you intend to enroll in IBR.

Federal Perkins Loans are only eligible when part of a FFEL or Federal Direct Consolidation Loan. However, you always should consult with the school from which you obtained a Perkins Loan before consolidating it because Perkins Loans include their own cancellation provisions. These provisions will be lost if you consolidate your Perkins Loan.

Q: Which student loans are eligible for PSLF?

Only Federal Direct Loans: Federal Direct Subsidized and Unsubsidized Stafford Loans; Federal Direct Grad PLUS Loans and Federal Direct Consolidation Loans are eligible for Public Service Loan Forgiveness.

Parent PLUS Loans are eligible for PSLF but there are additional factors to consider:

First, eligibility for PSLF depends on the parent's employment, not on that of the dependent student for whom the loans were borrowed. Also, Parent PLUS Loans and consolidation loans that repaid Parent PLUS Loans are not eligible for IBR, which restricts the impact of PSLF.

However, a Direct Consolidation Loan that repaid a Parent PLUS Loan is eligible for ICR, which is an income-driven plan and a qualifying repayment plan for PSLF.

Q: Which student loans are NOT eligible for PSLF?

Federally guaranteed loans (FFEL) are not eligible for Public Service Loan Forgiveness. Borrowers may consolidate their FFEL Loans into Federal Direct if they intend to work toward PSLF.

Federal Perkins Loans are only eligible as part of a Federal Direct Consolidation Loan. You always should consult with the school from which you obtained a Perkins Loan before consolidating it because Perkins Loans include their own cancellation provisions. These provisions will be lost if you consolidate your Perkins Loan.

Loans made by a state or private lender that are not guaranteed by the federal government are never eligible.

Q: When can I elect IBR, ICR or Pay As You Earn?

You may elect IBR, ICR or Pay As You Earn when you enter repayment by selecting them on the IBR/Pay As You Earn/ICR Request form. If you are already in repayment, you may elect an income-driven plan by contacting your servicer and requesting to switch to IBR, Pay As You Earn or ICR.

Q: When can I apply for PSLF?

You may only apply for final forgiveness after you have made all 120 qualifying payments on your eligible Federal Direct Loan(s) while working in qualifying employment. In the meantime, keep track of your qualifying employment by submitting the Department of Education's Employment Certification Form annually, and retaining pay stubs, W-2s and any other supporting documentation.

To utilize an income-driven repayment plan in conjunction with PSLF, enroll in IBR, Pay As You Earn or ICR for your eligible Federal Direct Loans as soon as you are eligible. Once you have made 120 qualifying payments on these Federal Direct Loans while working in qualifying employment, apply for final forgiveness from the Department of Education. Because the following example uses the Federal Poverty Guideline in place as of January 2012 for a household of one, it is likely that your numbers will differ slightly:

> **Example:** Dara graduates with $50,000 in eligible federal loans. Her loans have a 6.8 percent nterest rate and she is single.
>
> Dara begins qualifying employment earning a salary of $35,000. Because she owes $50,000 and only makes $35,000, Dara has a partial financial hardship (owes more than 15 percent of her discretionary income) and is eligible for IBR. During her first year in IBR, Dara's monthly payments are around $228. Dara would pay more than twice as much – around $575 per month – under a standard 10-year repayment plan.
>
> Dara receives annual salary increases of 3 percent and her monthly payments under IBR gradually rise. In year 10, her monthly payments are about $298 – a little more than half of what she would have had to pay under a 10-year plan.
>
> Dara remains in public service and pays **about $31,374** over 10 years in IBR. She applies for, and the federal government grants her, PSLF and her remaining balance of about **$52,614 (which includes principal and interest) is forgiven**.

Q: When thinking about income-driven plans or considering using an income-driven plan together with PSLF, if I'm married, should I file my taxes jointly or separately?

There is no one answer for everyone. You'll need to calculate the financial impact for both scenarios to determine what is best for you. When married borrowers file joint income tax returns, both your income and your spouse's income will count in your payment calculation. The calculation also will count both your and your spouse's federal (but only your federal) student loan debt. The only way to separate income is to file separate federal income tax returns. If you file separately, only your income, and only your federal student loan debt, will count. Remember that if you have filed a joint income tax return before you enroll in IBR, the Department of Education requires your servicer to calculate your eligibility and income-based payment amount based on both your and your spouse's joint income and federal loan debt. If you think it will be advantageous for you to have your eligibility and income-based payment amount calculated solely on the basis of your federal student loan debt and adjusted gross income, make sure you file singly before enrolling in IBR.

You may estimate your monthly payments and compare scenarios under different repayment plans using the **calculators** at **FinAid.org**, and we encourage you to consult a financial adviser regarding your specific circumstances.

Q: What is a "qualifying loan payment" for Public Service Loan Forgiveness?

A payment on a Federal Direct Loan (including a Federal Direct Consolidation Loan) of the amount required under either the Income-Contingent Repayment (ICR), Pay As You Earn or Income-Based Repayment (IBR) plans, or not less than the amount required under a Standard Repayment plan based on a 10-year repayment schedule.

ONLY payments made on Federal Direct Loans (including Federal Direct Consolidation Loans) while working full time in qualifying public service employment count toward the 120 payments required to qualify for PSLF.

Q: If my monthly payment under an income-driven repayment plan is zero, does each month during which my calculated payment is zero count toward the required 120 payments for PSLF?

Yes. Any month when your calculated payment on your Federal Direct Loans under an income-driven repayment plan is zero will count toward your required 120 monthly payments as long as you are working in qualifying employment at the time these zero-dollar payments are due.

Q: When can I begin counting my time in public service toward forgiveness?

You may count your employment (and payments) beginning Oct. 1, 2007. But remember that only qualifying payments made on Federal Direct Loans count toward your required 120 monthly payments and only those Federal Direct Loans are eligible for forgiveness.

Q: Will the Department of Education track my qualifying employment and payments while I am working toward meeting the 120 required payments for PSLF?

The Department of Education's loan servicer will track your employment only if you submit the annual employment certification form. It is your responsibility to have documentation that supports a request for loan forgiveness under the PSLF program. This includes documentation from your employer or employers. Based on this employment documentation, the U.S. Department of Education's loan servicer will be able to identify qualifying employment and payments.

Q: Do the 120 payments have to be consecutive to qualify for Public Service Loan Forgiveness?

No. You must make 120 separate, on-time, full monthly payments while you are employed full-time by a qualifying public service organization, but the payments do not have to be consecutive.

Q: If I have been making payments on my Federal Direct Loans since before October 2007, will these payments count toward the 120 payments for Public Service Loan Forgiveness?

No. Under the law, only payments made after Oct. 1, 2007 count toward the required 120 payments for PSLF.

Q: If I'm volunteering at a qualifying employer but I receive my income from another source (a nonqualifying employer) will my payments count toward PSLF?

No. Unfortunately, while you may be providing important services to a qualifying employer, unless they pay you income, the payments made during that time will not count toward PSLF.

Q: Does my work for an international organization count for PSLF?

Unfortunately, no. If you are working full time for a U.S.-based nonprofit and working abroad, this will be qualifying employment. However, if you are working for a foreign nonprofit or an international organization, this is not qualifying employment for purposes of PSLF.

Here are some more FAQs from external sources:

- **U.S. Department of Education FAQs on Income-Driven Repayment**
- **U.S. Department of Education PSLF Fact Sheet**
- **U.S. Department of Education FAQs on Public Service Loan Forgiveness**
- **IBR, PSLF and consolidation FAQs from IBRinfo.org**
- **FAQs for AmeriCorps Members and Alumni on the Public Service Loan Forgiveness Program and the Income-Based Repayment Plan**

*Equal Justice Works provides this **information** for educational and informational purposes only; it is not intended and should not be construed as legal advice. Educational debt relief programs are not automatic and borrowers must take specific actions in order to qualify.*

*Equal Justice Works provides resources to help borrowers. For additional tools and information, please visit **www.equaljusticeworks.org**. And **sign up** for important updates on educational debt, including regulatory and programmatic changes, news, new forms of relief, upcoming events and webinars.*