College Cost Reduction and Access Act (CCRAA)

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Duke School of Law

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What is the CCRAA?

- **The College Cost Reduction and Access Act of 2007 (effective July 1, 2009) helps high debt borrowers in two main ways:**

  1. Lowers monthly student loan payments on federally guaranteed student loans (Income Based Repayment or IBR) whether or not they're in public service.

  2. Cancels remaining debt for public service employees after 10 years of public service employment (Loan Forgiveness for Public Service) and after 25 years for all other students.

Lowered Monthly Student Loan Payments

- Monthly loan payments can be reduced by choosing the “income-based repayment” (IBR) option.

- IBR reduces monthly payments but may increase the total cost of the loan(s) since more interest will accrue.

What’s the big picture in IBR?

- **Example:** John owes $100,000 in qualifying debt at 7.45% interest and takes a job paying $40,000 to start.
- He elects the income-based repayment (IBR) plan. In his first year, **John’s monthly payments under IBR are $309 (as opposed to $1185 under standard ten-year repayment).**
- As John gets annual salary increases of 5%, his monthly payments under IBR gradually rise, until in year 10 his monthly payments are $526.
- Forgiveness at 25 years if not in public service.

What Loans are eligible for IBR?

- All federal direct loans (FDLP) and federally guaranteed loans (FFELP) are eligible including:
- subsidized and unsubsidized Federal Stafford Loans
- Federal Grad PLUS loans (but not Parent PLUS loans)
- Federal Direct Consolidation Loans.

What loans are not eligible for IBR?

- Loans made by a state or private lender and not guaranteed by the federal government are never eligible.
- Parent PLUS loans are not eligible for IBR.
- Federal Perkins Loans are only eligible when part of a Federal Direct Consolidation Loan.
- Borrowers should seek advice before consolidating a Perkins loan because Perkins loans include cancellation provisions.

Interest on Subsidized Stafford Loans

- Any interest due and not covered by a borrower in IBR shall be paid by the Department of Education for up to three years.

IBR Calculation Formula

- Income-Based Repayment (which will go into effect on July 1, 2009) creates a method for borrowers to limit their annual educational debt repayment to a reasonable, affordable amount: 15% of discretionary income, where discretionary income is defined as adjusted gross income minus 150% of the poverty level for the borrower's family size.

- AGI – 150% of poverty level = Discretionary income
- Discretionary Income x .15 = Annual Loan Payment
- Annual Loan Payment ÷ 12 = Monthly Loan Payment

2007 HHS Poverty Guidelines

Persons in Family or Household	48 Contiguous States and D.C.	Alaska	Hawaii
1	$10,120.00	$12,770.00	$11,750.00
2	$13,690.00	$17,120.00	$15,750.00
3	$17,170.00	$21,470.00	$19,750.00
4	$20,650.00	$25,820.00	$23,750.00
5	$24,130.00	$30,170.00	$27,750.00
6	$27,610.00	$34,520.00	$31,750.00
7	$31,090.00	$38,870.00	$35,750.00
8	$34,570.00	$43,220.00	$39,750.00
For each additional person, add	$3,480.00	$4,350.00	$4,000.00

How is IBR calculated?

Eligible federal student loan debt	**$100,000.00**	
Estimated monthly payment **(standard plan @ 7.45% over 10 years)**	**$1185.08**	**[1]**
Annual amount due ([1] x 12)	**$14,220.96**	**[2]**
Household size	**1**	
Household AGI	**$40,000.00**	**[3]**
Poverty line for household size	**$10,210.00**	**[4]**
150 % of poverty line (1.5 x [4])	**$15,315.00**	**[5]**
AGI – 150% of poverty line ([3] – [5])	**$24,685.00**	**[6]**
15% of calculated amount from (0.15 x [6])	**$3,703.00**	**[7]**
Eligible for IBR? – Yes or No **Yes, If [7] is less than [2]** **No, If [7] is equal to or greater than [2]**	**YES**	
IBR monthly payment, if eligible ([7] ÷ 12)	**$309.00**	

Possible Concerns

- Interest accrual/negative amortization- While making lower income based payments, a borrower’s payments may not cover the amount of interest accruing. (The Department of Education will cover unpaid interest for three years on <u>subsidized</u> Stafford Loans only.) This may result in a larger loan.

Loan Forgiveness

- **Overview - Loan Forgiveness for Public Service Employees**

  Congress created loan forgiveness for public service employees—if a borrower makes 120 qualifying loan payments on a Federal Direct Loan (including Federal Direct Consolidation Loans) while working full-time for 10 years in public service employment, the unpaid balance on the loan is forgiven by the federal government.

What's the big picture?

- **Example:** John started out owing $100,000 in qualifying debt at 7.45% interest and took a full-time public service job with a starting salary of $40,000 with annual increases of 5%. John stayed in public service and paid $49,132 over 10 years under the IBR plan. **The federal government cancels the remaining principal and interest: $122,959.21**

What loans are eligible for forgiveness?

- Eligible loans include Federal Direct Stafford Loans (Subsidized and Unsubsidized), Federal Direct PLUS Loans, and Federal Direct Consolidation Loans. Duke Law graduates will need to consolidate their federal loans into a Federal Direct Loan in order to be eligible for forgiveness.
- Although Perkins Loans are not eligible for public service loan forgiveness, if they are included in a Federal Direct Consolidation Loan the entire consolidation loan, including the Perkins Loans, is eligible for public service loan forgiveness.
- Private loans are not eligible for forgiveness.

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

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

When can I begin counting my time in public service towards forgiveness?

- Beginning October 1, 2007, borrowers who have federal direct loans (including Federal Direct Consolidation loans) may begin counting time in public service. Borrowers who have already consolidated their loans outside of Federal Direct must wait until July 1, 2008 for the right to “reconsolidate” into Federal Direct and begin counting time in public service.

How to obtain a Federal Direct Consolidation loan:

- Duke University is not a direct lending institution. To be eligible for forgiveness, you must consolidate your loans into a Federal Direct Consolidation Loan.
- http://loanconsolidation.ed.gov/borrower/borrower.shtml
- https://loanconsolidation.ed.gov/appentry/appindex.html
- Borrowers currently in school should consolidate upon graduating. Borrowers who have already consolidated their loans outside of Federal Direct must wait until July 1, 2008 for the right to “reconsolidate” into Federal Direct and begin counting time in public service.

Forgiveness Terms

- 120 qualifying payments (do not have to be consecutive)
- Must be employed full time in public service at the time of forgiveness

What qualifies as public service?

- **The CCRAA defines a public service job as follows**: A full-time job in emergency management, government, military service, public safety, law enforcement, public health, public education (including early childhood education), social work in a public child or family service agency, public interest law services (including prosecution or public defense or legal advocacy in low-income communities at a nonprofit organization), public child care, public service for individuals with disabilities, public service for the elderly, public library sciences, school-based library sciences and other school-based services, or at an organization that is described in section 501(c)(3) of the Internal Revenue Code of 1986 and exempt from taxation under section 501(a) of such Code; or Teaching as a full-time faculty member at a Tribal College or University as defined in section 316(b) and other faculty teaching in high-needs areas, as determined by the Secretary.

Questions to consider:

- Will you work the full ten years in public service?
- What will you give up by consolidating into a direct loan (borrower benefits)?

Special Issue for 2008 Graduates: Transition from ICR to IBR

- IBR is not available until July 1, 2009
- May 2008 graduates can elect an existing repayment plan contingent on their incomes (ICR)
- Main differences in these plans are in the way discretionary income is calculated and how interest is capitalized
- The IBR program allows borrowers to pay a smaller portion of their discretionary income than ICR.

Special Issue for 2008 Graduates: Transition from ICR to IBR

- Payments made under ICR count toward forgiveness.

Conclusion

- (a) High-debt borrowers who plan to spend at least ten years in public service careers should consolidate their student debt into federal direct consolidation loans, use income-contingent repayment until July 1,2009, and switch to income-based repayment on July 1, 2009.
- (b) High-debt borrowers who do not expect to do public service but nevertheless expect low incomes for a long period of time may also want to consider IBR, though this will cause their total payments to increase, and no forgiveness will occur until 25 years have elapsed.
- (c) High-debt, low-income borrowers who are not in public service and who expect their incomes to rise substantially over time might use IBR to ease the repayment burden for a few years, but this repayment method will require a higher level of total repayment. They will probably repay the total amount owing before 25 years elapse, and therefore they will not qualify for forgiveness.

Resource Page

- Professor Philip Shrag's article on Loan Forgiveness: https://www.law.georgetown.edu/news/releases/documents/Forgiveness_000.pdf
- Equal Justice Works CCRAA Overview: http://www.equaljusticeworks.org/resource/ccraa
- Use the IBR monthly repayment calculator: http://www.finaid.org/calculators/ibr.phtml
- Use the ICR monthly repayment calculator: http://www.finaid.org/calculators/icr.phtml
- Federal direct consolidation loan information and applications: http://loanconsolidation.ed.gov/