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Office of Career & Alumni Services

Recent Graduates

COLLEGE COST REDUCTION AND ACCESS ACT

P.L. 110-85

I. What is the CCRAA?

A. The College Cost Reduction and Access Act helps high-debt borrowers in two ways:

1. Lowers monthly student loan payments on federally guaranteed student loans (Income Based Repayment or IBR) whether or not the student is in public service; and
2. Cancels remaining debt for public service employees after ten years of public service employment (Loan Forgiveness for Public Service) and after 25 years for all other students.

II. Income Based Repayment (IBR)

A. Monthly loan payments can be reduced by choosing the IBR option.

1. All federal direct loans (FDLP) and federally guaranteed loans (FFELP) are eligible including:
 - a) *Subsidized and unsubsidized Federal Stafford Loans;*
 - b) *Federal Grad PLUS Loans (but not Parent PLUS loans); and*
 - c) *Federal Direct Consolidation Loans.*
2. Loans that are not eligible include:
 - a) *Loans made by a state or private lender and not guaranteed by the federal government are never eligible;*
 - b) *Parent PLUS loans and never eligible; and*
 - c) *Federal Perkins Loans are only eligible when part of a Federal Direct Consolidation Loan.*

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

C. IBR Calculation Formula

1. 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.

a) $AGI - 150\% \text{ of poverty level} = \text{discretionary income}$

b) $\text{Discretionary income} * .15 = \text{annual loan payment}$

c) $\text{Annual loan payment} / 12 = \text{monthly loan payment}$

D. Possible Concerns

1. Interest accrual/negative amortization

a) *While making lower income-based payments, a borrower's payments may not cover the amount of interest accruing. This may result in a larger loan. The Department of Education will cover unpaid interest for three years on subsidized Stafford Loans only.*

III. Loan Forgiveness

A. Overview: Loan Forgiveness for Public Service Employees

1. If a borrower makes 120 qualifying loan payments on a Federal Direct Loan (including Federal Direct Consolidation Loan); and

2. If a borrower works full-time for ten years in public service employment.

B. Eligible Loans

1. Federal Direct Stafford Loans (subsidized and unsubsidized);

2. Federal Direct PLUS Loans;

3. Federal Direct Consolidation Loans; and

4. Perkins Loans IF they are included in a Federal Direct Consolidation Loan.

C. Qualifying Loan Payments

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

D. When can you begin counting your time in public service?

1. Borrowers who have Federal Direct Loans: October 1, 2007.

2. 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.

E. Obtaining a Federal Direct Consolidation Loan

1. <http://loanconsolidation.ed.gov/borrower/borrower.shtml>; or

2. <http://loanconsolidation.ed.gov/appentry/appindex.html>.

F. What qualifies as public service?

1. 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.

IV. Questions to Consider

A. Will you work the full ten years in public service?

B. What will you give up by consolidating into a direct loan (borrower benefits)?

C. What will your tax bill be during the year of forgiveness? Currently, the forgiven amount is considered taxable.

V. Special Issues for 2008 Graduates

A. IBR is not available until July 1, 2009.

B. May 2008 graduates can elect an existing repayment plan contingent on their incomes (ICR).

C. Main differences in these plans are in the way discretionary income is calculated and how interest is capitalized.

D. The IBR program allows borrowers to pay a smaller portion of their discretionary income than ICR.

E. Payments made under ICR count toward forgiveness.

VI. 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.

VII. Resources

A. Professor Philip Shrag's article on Loan Forgiveness:

https://www.law.georgetown.edu/news/releases/documents/Forgiveness_000.pdf

B. Equal Justice Works CCRAA Overview:

http://www.equaljusticeworks.org/files/ejw_ccraa.pdf

C. Use the IBR monthly repayment calculator:

<http://www.finaid.org/calculators/ibr.phtml>

D. Use the ICR monthly repayment calculator:

<http://www.finaid.org/calculators/icr.phtml>

E. Federal direct consolidation loan information and applications:

<http://loanconsolidation.ed.gov/>