



BOSTON UNIVERSITY SCHOOL OF LAW

College Cost Reduction and Access Act of 2007

On Thursday, September 27, President Bush signed the College Cost Reduction and Access Act of 2007.

This Act provides support for graduate students choosing to enter careers in the public interest sector in the form of (1) a repayment option that creates a ceiling on monthly payments based on the borrower's income and (2) a loan forgiveness opportunity after ten years of repayment and employment in the public sector.

Current students, who expect to pursue a career in the public sector, may choose to alter their borrowing to include the Graduate PLUS Loan in order to take full advantage of the new options available.

We expect to receive additional information over the coming months clarifying the language of the law and will provide updates as necessary.

Income Based Repayment

Section 203 of the Act takes effect on July 1, 2009. This section creates a new repayment option for borrowers of the following federal loans: Stafford, Perkins, Grad PLUS and Federal Consolidation (less any undergrad PLUS) loans.

Students who enter repayment before July 1, 2009 may still use the Income Contingent Repayment option that is currently available and switch to the Income Based Repayment.

If a borrower's annual payment on a loan under the standard 10-year repayment option is greater than 15% of the amount that the borrower's and the borrower's spouse (if applicable) exceeds 150% of the poverty level for the borrower's family size, the borrower is eligible for Income Based Repayment (IBR).

This is much easier to follow as a formula:

$$\text{Annual maximum payment} = (\text{Adjusted Gross Income} - (\text{poverty level} \times 1.5)) \times 0.15$$

To calculate the monthly payment, simply divide by 12:

$$\text{Annual maximum payment}/12 = \text{maximum monthly payment}$$

For example:

The Federal poverty level for a family of 1 in 2007 is \$10,210.

150% of this number is \$15,315.

If a borrower borrowed \$61,500 in Federal Stafford Loans at an interest rate of 6.8%, annual payments would be about \$8,496 on a ten year repayment schedule of \$708 per month.

Assume the borrower has a \$40,000 AGI. Using the IBR calculation, the borrower would only have to pay:

$$\begin{aligned} (40,000 - 15,315) \times .15 &= \text{annual maximum payment} \\ 24,685 \times .15 & \\ \$3,702.75 \text{ annually}/12 & \\ \$308.56 \text{ monthly} & \end{aligned}$$

The annual cash outlay would be \$4,793 less under the IBR program.

What happens to the maximum payment amount as income increases?

The maximum payment amount adjusts annually until the borrower's reaches the level that would require the same monthly payment under the IBR as the standard 10-year repayment.

Using the above example, once a borrower's income increased to \$71,955 the annual payment would be equal to the payments for the original 10 year amortization of the loan. Any payments below \$8,496 annually might lead to negative amortization meaning that the payments are not covering the interest due.

What happens to the unpaid accrued interest?

The Department of Education would pay the interest for up to 3 years on the subsidized loans. After 3 years for the subsidized loans and immediately for non-subsidized loans, the interest would accrue and be capitalized.

If at the end of 25 years of income based repayment, the borrower still has principal and/or interest remaining, the loan is repaid by the Department of Education or is canceled. The borrower may owe taxes on the amount that is forgiven or canceled.

Loan Forgiveness

Section 401 contains the provisions for Federal Loan Forgiveness for Public Service Employees. While this section takes effect July 1, 2009, the Act does allow for payments beginning October 1, 2007 to count toward the required payments.

Public service employment is defined by the Act as follows: A full-time job in emergency management, government, military service, public safety, law enforcement, public health, public 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 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.

To be eligible, borrowers must:

- Make 120 monthly payments on the eligible Federal Direct Loan on or after October 1, 2007;
- Be employed in a public service job as defined in the Act during the time that he or she makes the qualifying payments;
- Be employed in a public service job as defined in the Act at the time that the loan is forgiven; and
- Make qualifying payments under one of (or combination of) the following:
 - Income contingent repayment plan;
 - Income based repayment plan (available 7/1/09);
 - Standard repayment plan with a ten year repayment period; or
 - One of the other Direct Loan repayment plans under which the borrower paid a monthly amount that is not less than what the borrower would pay under a ten year repayment plan.

Students who complete 120 monthly payments while employed in a public service job will have the remaining principal and interest of their loan forgiven.

The Loan Forgiveness requires that students borrow Direct Loans or consolidate their loans through the Federal Direct Consolidation Program.

Alumni or current students who have consolidated or borrowed their federal loans through other lenders may want to consider a Direct Consolidation Loan. Alumni who consolidated away from the Direct Loan Program will have to wait until 7/1/08 to reconsolidate their loans back into Direct Loans to take advantage of this option.