

COLLEGE COST REDUCTION & ACCESS ACT

Chuck Adkins, Associate
501 (c) Solutions
chuck@amazingnonprofits.com

Technicalities

- I'm only the messenger.
- Each situation is unique.
- The information in this presentation is only a guide and should not be considered legal or tax advice.
- This stuff is relatively new...even Direct Loans doesn't know all the details.

What is the CCRAA?

- The College Cost Reduction and Access Act of 2007 (CCRAA) helps high debt borrowers by:
 - Income Based Repayment - Lowers monthly student loan payments on federally guaranteed student loans (public and private sectors)
 - Loan Forgiveness for Public Service - Cancels remaining debt for nonprofit employees after 10 years

Income Based Repayment

- IBR reduces monthly payments but in most cases will increase the total cost of the loan.
- Example...John owes \$100,000 in qualifying loans at 7.45% interest and takes a job starting at \$40,000...under IBR, his payments are \$309/month (as opposed to \$1185/month under the standard 10-year repayment). As John's salary increases at 5%, his payments gradually rise until year 10, when they are \$526.

IBR - Qualified Loans

- All Federal Direct Loans (FDLP) and Federally Guaranteed Loans (FFELP)
- Subsidized and Unsubsidized Federal Stafford Loans
- Federal Grad PLUS loans (but not Parent PLUS loans)
- Federal Direct Consolidation Loans

National Student Load Data System www.nsls.ed.gov

IBR - Unqualified Loans

- Loans made by a state or private lender and not guaranteed by the federal government
- Parent PLUS loans
- Federal Perkins Loans are ONLY eligible if pulled into a Federal Direct Consolidation Loan. **Seek advice before doing this because Perkins Loans have cancellation provisions.

IBR - Calculations

- Discretionary Income = Adjusted Gross Income – 150% of poverty level
- Annual Loan Payment = Discretionary Income x 0.15
- Monthly Loan Payment = Annual Loan Payment / 12

IBR - Poverty Guidelines

| Persons in Household | 48 Contiguous States & DC |
|---------------------------------|---------------------------|
| 1 | \$10,120 |
| 2 | \$13,690 |
| 3 | \$17,170 |
| 4 | \$20,650 |
| 5 | \$24,130 |
| 6 | \$27,610 |
| 7 | \$31,090 |
| 8 | \$34,570 |
| For each additional person, add | \$3,480 |

IBR - How to Calculate

| | | |
|----|---|-----------|
| 1 | Eligible federal student loan debt | \$100,000 |
| 2 | Estimated monthly payment (standard plan @ 7.45% over 10 years) | \$1185 |
| 3 | Annual amount due (Line 2 x12) | \$14,220 |
| 4 | Household size | 1 |
| 5 | Household AGI | \$40,000 |
| 6 | Poverty line for household size | \$10,210 |
| 7 | 150% of poverty line of Line 6 | \$15,315 |
| 8 | AGI – 150% of poverty (Line 5 – Line 7) | \$24,685 |
| 9 | 15% of Line 8 | \$3,703 |
| 10 | You are eligible for IBR if Line 9 is smaller than Line 3 | YES |
| 11 | IBR Monthly Payment (Line 9 / 12) | \$309 |

IBR – Concerns...

- Interest Accrual / Negative Amortization

The lower payments may not cover the amount of interest charged, which will be compounded into the loan; thus the loan total may become larger. (The DOE will cover unpaid interest on Subsidized Staffords.)

- Marriage-count income from both in AGI if filing taxes jointly

...IBR - Concerns

- IBR was not available until July 1, 2009
- Previous plan is called Income Contingent Repayment (ICR)
- IBR will allow borrowers to pay a smaller portion of discretionary income

Loan Forgiveness

If you make 120 qualified loan payments on a Federal Direct Loan while working full-time for 10 years in a public service job (nonprofit), the unpaid balance of the loan is forgiven.

Forgiveness - Eligible Loans

Same restrictions on eligible loans as was for the IBR

Forgiveness – Qualified Payment

- A payment on a Federal Direct Loan of the amount calculated under either the ICR, the IBR, or not less than the amount required under the Standard Repayment on a 10-year schedule.

Forgiveness – Begin Counting

- Beginning October 1, 2007, borrowers who have Federal Direct Loans may begin counting time in public service.

Forgiveness – 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.

Forgiveness - Concerns

- Payments under ICR count toward forgiveness as of October 1, 2007.
- What will you give up by consolidating into a Direct Loan? (borrower benefits)
- Will you work for the full 10 years in public service?
- How do I apply? No one knows.

BIG PICTURE

- 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 canceled the remaining principal and interest: \$122,959.

Resources

- www.equaljusticeworks.org/resources
- www.finaid.org/calculators/ibr.phtml
- www.finaid.org/calculators/icr.phtml
- <http://loanconsolidation.ed.gov>
- Direct Loan 800-848-0979
- www.nslds.ed.gov

What's Next?

SPREAD THE WORD!!!!