

The College Cost Reduction and Access Act of 2007 (CCRAA)

**February 17, 2010 12:15 & 5:15 PM
University of Akron School of Law**

**Anneliese Gryta
Equal Justice Works AmeriCorps Legal Fellow
Legal Aid of Western Ohio, Inc.**

The College Cost Reduction and Access Act of 2007

- Bill H.R. 2669
- Signed into law by President Bush on September 27, 2007
- Amends Higher Education Act of 1965
- Regulations: 34 CFR Parts 674, 682 and 685 or 73 FR 63262.

5 Major Rights Created by the CCRAA

- Pell Grant Increases
- Interest Rate Reductions
- Deferment for Certain Members of Armed Forces
- Income Based Repayment (IBR)
- Loan Forgiveness for Public Service Employment

How Does the CCRAA Help Those with Educational Debt?

- **Income Based Repayment (IBR)**: significantly lowers student loan payments by creating an income-based repayment plan (for everyone)
- **Loan Forgiveness**: Provides loan forgiveness by cancelling remaining debt after 120 payments (for public service employees ONLY)

Types of Loans Covered by the CCRAA:

- Stafford Loans
- GradPLUS Loans
- Perkins ONLY IF in federal consolidation loan.

Two Different Disbursement Channels:

- Federal Direct: Automatically covered for all benefits
- Federally Guaranteed (FFEL/FFELP): Not automatically covered. Must consolidate into federal consolidation loan through Federal Direct to receive the Public Service Loan Forgiveness benefits of the CCRAA.

How Do I Know What Kind of Loans I Have?

- National Student Loan Data System:
<http://www.nslds.ed.gov>
- Federal Student Aid Information Center:
1-800-4-FED-AID

A Student Loan Example

Jane owes 100K in qualifying federal debt, at 6.8% interest.

She takes a job making \$40K right out of school.

She chooses the standard 10 year repayment plan.

HOW MUCH WILL SHE PAY MONTHLY?

Income Based Repayment

- Lowers monthly payments by creating income based repayment plan for anyone with a “Partial Financial Hardship”
- Not just for those in public service jobs
- Became available July 1, 2009

Income Based Repayment

- Partial Financial Hardship:
 - Monthly payments capped at 15% of discretionary income
 - Discretionary income defined as adjusted gross income (AGI) minus 150% of the federal poverty level for the borrower's family size.

Income Based Repayment

- a.) Calculate/estimate adjusted gross income (AGI) when you will begin payment
 - b.) Determine 150% of poverty level for your family size
 - c.) Subtract b.) from a.)
 - d.) Calculate 15% of this sum
 - e.) Divide by 12 months of year
- = MAX monthly
payment under IBR

Income Based Repayment

Back to our Example:

Jane owes \$100K in qualifying debt at 6.8% interest and takes a job making \$40K to start. She elects IBR.

In her first year, had she been on a regular 10 year plan, payments would be _____.

But under IBR, monthly payments are \$309.

Income Based Repayment

Another Example:

I owes \$33K in qualifying debt at 6.8% interest and takes a job making \$24,000 to start in an AmeriCorps attorney program at Legal Aid of Western Ohio.

Standard 10 Year Repayment Plan: \$379.77

IBR Repayment Plan: \$96.64

Income Based Repayment

Q: Will I be making IBR payments until I die?

A: No! The maximum payment period is 25 years, then the balance is forgiven.

But, unlike under the public service forgiveness provision, this is currently TAXABLE “cancellation of debt income.”

To learn more:

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

Income Based Repayment

Q: What if my payments don't even cover the interest accrued?

A: The federal government will cover unpaid accrued interest for a period of 3 consecutive years.

Income Based Repayment

HOW TO APPLY:

Contact your lender or loan servicer directly and say you wish to apply for IBR.

Federal Direct Loans:

Your lender is the Department of Education. Request for IBR available at:
https://www.dl.ed.gov/borrower/PDFFrames.jsp?PDF=othf_intgr_IBR8_pack.pdf

FFEL Loans:

Contact your lender or servicer directly.
Different lenders have different procedures.

You will need to prove Adjusted Gross Income with last year's tax returns.

Income Based Repayment

Special Note for Married Couples who File Taxes Jointly:

- **Current rule:** When two married individuals both have student loan debt and file taxes jointly, they could face *up to double the monthly loan payment* of two unmarried borrowers in otherwise identical situations. This is because their combined income is used to calculate each spouse's own IBR payment, ignoring the fact that their joint income must be used to pay down both borrowers' debts.
- **Change Available July 1, 2010:** When a married borrower whose spouse also has federal student loans applies for IBR, the lender will still look at the joint income, but they will also factor in the spouse's debt before calculating IBR payments.

A Great IBR Resource

www.IBRinfo.org

Sign up for e-mail updates.

Get involved in supporting H.R. 2492, a bipartisan proposal to make the debt forgiveness of IBR NON-TAXABLE.

A Note on the Income Contingent Repayment Plan

- Income Contingent Repayment (ICR):
 - Another type of payment plan offered by federal government.
 - Predates CCRAA
 - Originally designed to help people with lower paying jobs, but doesn't help as much as IBR.
 - Translates to higher monthly payments than IBR, but there may be situations where it is a better choice.

A Note on the Income Contingent Repayment Plan

- Income Contingent Repayment (ICR):
 - Make payments for 25 years and then the balance is forgiven
 - Unlike the public service loan forgiveness (which we will discuss later), this is **TAXABLE** “cancellation of debt income”

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

Loan Forgiveness for Public Service Employees

- Provides loan forgiveness by cancelling remaining debt after 120 qualifying monthly payments by public service employees.
- Counts payments back to October of 2007.

Public Service Loan Forgiveness is NOT TAXABLE INCOME!

Although all income from any source is generally taxable, including income from a cancellation of debt, Tax Code Section 108(f) allows forgiveness of student loans to be excluded from taxable income if the student loans were forgiven as a result of the borrower working for a certain period of time “in certain professions for any of a broad class of employers.”

Section 108(f) defines “student loan” as a loan to assist an individual in attending an educational organization. Treasury has confirmed that all student loans eligible for CCRAA Public Service Loan Forgiveness, including Federal Direct Consolidation Loans, will be considered student loans.

For this reason, the loan forgiveness meets the requirements of 108(f) and will not be taxed.

In Revenue Ruling 2008-34, Treasury had previously confirmed that most law school based loan forgiveness programs also meet the requirements of 108(f) and will not be taxed.

Loan Forgiveness for Public Service Employees

Requirements:

1. Qualifying public service employment
2. Qualifying payments
3. Qualifying debt
4. Qualifying application

Loan Forgiveness for Public Service Employees

1. Qualifying Public Service Employment:

“A full time job in emergency management, government, public safety, law enforcement, public health, public education (incl. 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 non-profit 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 IRS Code and exempt from taxation, or teaching as a full-time member of a Tribal College or university and other faculty or teaching in high-needs areas as determined by the Secretary.”

H.R. 2669

Loan Forgiveness for Public Service Employees

2. Qualifying Payments:

- 1.) Income Contingent Repayment (ICR)
- 2.) Income Based Repayment (IBR)
- 3.) Standard repayment plan based ONLY on a 10 year repayment schedule
- 4.) Repayment plan in which monthly amount paid is not less than the monthly amount paid under the standard repayment plan over a 10 year period

Loan Forgiveness for Public Service Employees

Not Qualifying Payments:

- Extended payment plan
- Payment plans longer than 10 years
- Payments while not working in full time public service employment
- Payments on non-qualifying loans, like private loans or unconsolidated FFEL loans.

Loan Forgiveness for Public Service Employees

3. Qualifying Debt:

- 1.) Federal Direct Loans
- 2.) FFEL/FFELP & Perkins Loans which are consolidated in a Federal Consolidation loan.

Loan Forgiveness for Public Service Employees

More on Qualifying Debt & Consolidation:

Public Service Loan Forgiveness is where the difference between federal direct loans and FFEL loans matters.

To get your FFEL loans forgiven, they must be consolidated into the federal direct program. Even if you have already done a federal direct consolidation, everyone can do it ONE more time to take advantage of Public Service Loan Forgiveness.

Loan Forgiveness for Public Service Employees

4. Qualifying Application:

Must apply for forgiveness while working in qualifying public service employment.

Can leave and come back to it many times.

IMPORANT: Save ALL documents pertaining to employment and all payments made as documentation requirements are still uncertain.

Obama's Proposed Changes

- President Obama has proposed to reduce the IBR monthly payment cap to 10% of discretionary income, as opposed to 15%.
- President Obama has proposed the creation of a Consumer Financial Protection Agency which would be charged with overseeing the banks making private loans.

Loan Forgiveness for Public Service Employees

4. Qualifying Application:

Because of the uncertainty, I recommend that you sign up for e-mail updates at IBRinfo.org on new efforts to establish a confirmation process through the Dept. of Education so that borrowers interested in Public Service Loan Forgiveness can be assured they are eligible.

College Cost Reduction and Access Act of 2007

Equal Justice Works:

www.equaljusticeworks.org/resource/

The Project on Student Debt

<http://www.projectonstudentdebt.org/>

IBR Monthly Payment Calculator:

www.finaid.org/calculators/ibr.phtml

Federal Consolidation loan info and applications:

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

College Cost Reduction and Access Act of 2007

Good Law Review Articles:

Heather Jarvis, How the College Cost Reduction and Access Act of 2007 Can Benefit You: Public Service Loan Forgiveness and Income-Based Repayment, 42 Clearinghouse Rev. 454 (2009)

Philip G. Schrag, Federal Student Loan Repayment Assistance for Public Interest Lawyers and Other Employees of Government and Non-Profit Organizations, 36 Hofstra L. Rev. 27 (2007)

College Cost Reduction and Access Act of 2007

More Questions?

Anneliese Gryta

Attorney at Law

Equal Justice Works AmeriCorps Legal Fellow

Legal Aid of Western Ohio, Inc.

agryta@lawolaw.org

419-930-2380