

## COLLEGE COST REDUCTION AND ACCESS ACT (CCRAA) OF 2007

The College Cost Reduction and Access Act of 2007 (CCRAA), Public Law 110-84 dated September 27, 2007, added a new **Income Based Repayment Plan (IBR)** and a **Loan Forgiveness** provision for those employed full-time in qualifying public service jobs.

The Income Based Repayment Plan allows borrowers to repay their loans based on their income at the time of repayment. The federal government will then forgive (cancel) the remaining debt of borrowers who spend ten years in a qualifying public service job and who make monthly payments on their Federal Direct loans.

### Qualifying for Loan Forgiveness

The loan forgiveness program is only offered for eligible Federal Direct Loans. Students who borrowed a loan to attend Seton Hall Law since 2002 received a FFEL (Federal Family Education Loan), and may consolidate into the Direct Loan Program as of **July 1, 2008**. You may contact the Federal Loan Consolidation Center at 800-557-7392.

- The borrower must be employed in a public service job during the time he or she makes the qualifying monthly payments and at the time the loan is forgiven; and,
- The borrower must make 120 monthly payments on their eligible Federal Direct Loan after October 1, 2007\* under one of several repayment plans:
  - Income contingent repayment plan;
  - Income-based repayment plan (**not available until 2009**);
  - Standard repayment plan with a 10 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 10 year repayment plan.
- \*It is important to note that public service loan forgiveness is prospective, meaning that all 120 payments must be made on or after Oct. 1, 2007. Payments made before Oct. 1, 2007, do not count toward the 120 payments required to qualify for loan forgiveness.
- Seton Hall Law students who are graduating in December 2007 or May 2008 must graduate and consolidate with the Federal Direct Loan program before the 10-year count begins. They may pay under the Income Contingent repayment option until the IBR repayment plan is available in July 2009. Any loan amount that is cancelled may have tax implications.

### What is the definition of a Public Service Job?

“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.”

## **Income Based Repayment Plan (IBR)**

Income-based repayment basically means that the amount of your monthly payment is calculated based on your current income and is evaluated each year. The Income Based Repayment Plan takes effect on **July 1, 2009** and applies to Federal Stafford, Graduate PLUS or Consolidation Loans made under the FFEL or Direct Loan Program.

**To qualify:** The borrower must be experiencing **partial financial hardship** defined as:

- Annual amount due on his or her total eligible federal student loan debt in repayment (calculated using the standard repayment plan based on a 10-year repayment period) exceeds 15% of his or her discretionary income (defined as the household AGI\* minus 150% of the poverty line of his or her family size)
- If eligible, the IBR monthly payment is 1/12<sup>th</sup> of 15% of their AGI minus 150% of the poverty line

**Example:** Anthony owes \$100,000 at 6.8% and has an AGI of \$40,000 in the first year after graduation. Under IBR, Anthony would pay only \$309 per month, instead of \$1,155 on a standard ten-year repayment schedule. (15% of 1/12 of {\$40,000 – (150% of the poverty line of \$10,210, or \$15,315)}).

**\*Note:** A technical correction was signed that states that if a married borrower files separately, only the borrower's student loan and adjustable gross income will be used to calculate the amount of the borrower's income based repayment.

***If your payment calculates to be less than the interest due***

- The monthly IBR payment can be less than the accrued interest that billing period (i.e., it allows for negative amortization).
- Any unpaid interest will be paid by the federal government for up to 3 years. For non-subsidized loans and after the 3 year period on subsidized loans, the interest is capitalized.

### ***Loan Cancellation***

If a loan balance exists after 25 years of repayment under IBR, the loan is cancelled by the federal government. The amount forgiven may be taxable.