Public Service Loan Forgiveness

Fall 2013
...At the rate I'm going, my student loans should be paid off in 3 years...

That's great, Dad...
Today’s Plan

• Public Service Loan Forgiveness overview
• Ideas for minimizing the cost of your debt
• Qualifying employment
• Which loans are which and why it matters
• How to decide whether or not to consolidate
• Choosing a repayment plan
• Other Loan Repayment Assistance Programs
• Ask Heather
Minimizing the total cost of student loan debt

• Pay the debt quickly and avoid capitalization to minimize interest charges over time

• If necessary, pay the debt slowly and steadily. If it makes sense, take steps to maximize forgiveness and prepare for tax consequences.

• If inclined, commit to public service and take steps to earn forgiveness

• In any event, reevaluate often
Public Service Loan Forgiveness is earned by making payments "qualifying" payments.
Without PSLF | IBR | Pay As You Earn  
---|---|---  
Time in Repayment | 25 years | 20 years  
Total Paid | $209,362 | $102,257  
Forgiveness | $64,644 | $142,743  

With PSLF | IBR | Pay As You Earn  
---|---|---  
Time in Repayment | 10 years | 10 years  
Total Paid | $68,438 | $45,625  
Forgiveness | $107,812 | $129,375  

**Income driven forgiveness is taxable as income!**

**But PSLF is NOT taxable as income - wow**
Five Steps to Public Service Loan Forgiveness
Remember these 5 steps:

1. Make the right kind of payments,
2. on the right kind of loans,
3. while working in the right kind of job.
4. Repeat 120 times.
5. Prove it.
The right kind of job

full-time
paid work
Government

- Local
- State
- Federal
- Tribal
- Government organizations
- Government entities

- Government agencies
- Government contractors
Full-time

30 hours
The right kind of payments

Income driven repayment
NOT long term repayment plans
– be cautious about “standard” repayment terms
Income-driven repayment options have several advantages

- Affordable monthly payments
- Interest subsidy
- Capitalization benefits
- Possibility of forgiveness that is NOT tied to employment
  - Occurs after making payments based on income for 20-25 years (depending on the income driven repayment plan)
  - IF a balance still remains at that point
- Eligible repayment plan for Public Service Loan Forgiveness
on the right kind of loan

ONLY
FEDERAL
DIRECT
The options available to you depend upon what TYPE of loans you have and the STATUS of those loans.

- There are many different **types** of student loans.
- Most of us have **more than one type** of student loan.
- A student loan borrower may have as many as five different loans from each semester of school.
Federal student loans

Flexible, but excessively complicated

Private student loans

Simple, but frustratingly rigid
FREE Annual Credit Reports

AnnualCreditReport.com is the ONLY authorized source to get your free annual credit report under federal law.
Private student loans
Terms based on credit
Often variable interest rates with no cap
Lack borrower protections
Lack flexible repayment terms
Private student loans

KEEP CALM
AND
READ
THE
PROMISSORY
NOTE

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www.nslds.ed.gov
Federal Student Loans

- Perkins*
- Subsidized Stafford
- Unsubsidized Stafford
- Federal Consolidation
- Parent PLUS
- Grad PLUS
Federal Student Loans

FFEL

Federal Direct
Interest rates and consolidation

• Federal consolidation loans have fixed interest rates based on the weighted average of the underlying loans
• Before 2006, federal loans had **variable** interest rates
• Since 2006, new federal loans are at **fixed** interest rates set by Congress

• Beginning July 1, 2013, rates are tied to the market:
  – Rates for unsubsidized loans to graduate students are:
    • 10-year Treasury rate plus 3.60 percentage points (presently 5.41 percent), capped at 9.50 percent
  – Rates for GradPLUS and Parent PLUS loans are:
    • 10-year Treasury rate plus 4.60 percentage points, (presently 6.41 percent) capped at 10.50 percent
Federal Loans Offer Many Repayment Options

<table>
<thead>
<tr>
<th>Standard</th>
<th>Graduated</th>
<th>Extended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income-Sensitive</td>
<td>“Alternative”</td>
<td>Income-Contingent</td>
</tr>
<tr>
<td>Income-Based</td>
<td>Pay As You Earn</td>
<td></td>
</tr>
</tbody>
</table>
To consolidate or not to consolidate
Consolidation pros and cons

• Locking in a fixed interest rate (if applicable)
• Access to Public Service Loan Forgiveness
• Access to Pay As You Earn
• Access to a longer repayment period and lower monthly payments
• Group loans together with one lender
• Perkins cancellation lost
• “Borrower Incentives” lost
• Limited options for private loan consolidation

Good!
Meh.
Not good, but not widely applicable.
http://loanconsolidation.ed.gov/
Income-Based Repayment Application
Who should consider choosing income-driven repayment:

- Government and nonprofit employees
  - Because they might benefit from Public Service Loan Forgiveness

- High-debt graduate and professional borrowers

- Borrowers with low income as compared to debt
  - Because they might benefit from income driven forgiveness
Income driven repayment options

- Income-Contingent Repayment
- Income-Based Repayment
- Pay As You Earn
Partial Financial Hardship

Required debt to income ratio in order to qualify to choose IBR or PAYE
Income-Based Repayment or Pay As You Earn

Monthly payments are calculated based on:

For married people, AGI depends on federal tax filing status

Family size is NOT measured by looking to your tax return
Married filing jointly

Joint AGI = AGI
Individual or married filing separately tax filing status

Borrower’s AGI = AGI
Community property

“Alternative Documentation of Income” for married couples
PAYE more generous than IBR

But PAYE is only for “new borrowers”:

- No balance on a federal loan on October 1, 2007
- Borrowed a federal loan on or after October 1, 2011

And PAYE is only available for Direct Loans
### Section 1: Borrower Identification

Please enter or correct the following information.

- Check this box if any of your information has changed.
- **SSN**
- **Name**
- **Address**
- **City, State, Zip Code**
- **Telephone – Primary**
- **Telephone – Alternate**
- **E-mail Address (Optional)**

### Section 2: Repayment Plan Request

Before completing this form, carefully read the entire form, particularly Sections 7, 8, and 9. Type or print using dark ink. If you need help completing this form, contact your loan holder(s). Return the completed form and any required documentation to the address shown in Section 6. You may be eligible to complete your request online by visiting studentloans.gov. In addition, repayment plan calculators are available at studentaid.gov.

1. Please select the reason that you are completing this request:
   - [ ] I am requesting a repayment plan based on my income for the first time – Complete Section 2.
   - [ ] I am submitting my annual documentation for the calculation of the payment amount under a repayment plan based on my income – Skip to Section 3.
   - [ ] I am requesting that my loan holder recalculate my monthly payment amount early because my circumstances have changed – Skip to Section 3.

2. Check the repayment plan(s) you are requesting:

<table>
<thead>
<tr>
<th>Direct Loan Program Loans*</th>
<th>FFEL Program Loans*</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBR</td>
<td>Not Available</td>
</tr>
<tr>
<td>Pay As You Earn</td>
<td>Not Available</td>
</tr>
<tr>
<td>ICR</td>
<td>Only IBR will be considered for FFEL Program loans</td>
</tr>
</tbody>
</table>

Determine which of the above plans I am eligible for, and place me on the plan with the lowest monthly payment amount.

*Not all loan types under the FFEL and Direct Loan Programs are eligible for these plans (see Section 6).

Note: Other repayment plans are available and may offer a lesser payment amount. Payment under the IBR, Pay As You Earn, or ICR plans may result in your paying more interest over time. Calculators and information about repayment plans are available at studentaid.gov.

For Direct Loan borrowers, your request will apply to all loans that are eligible for the plan you choose. However, you will need to choose a different repayment plan.
SECTION 4: FAMILY SIZE AND FEDERAL TAX INFORMATION

7. [ ] Enter your family size (as defined in Section 8).
Note: If you do not enter your family size, your loan holder(s) will assume a family size of one. For purposes of these repayment plans, your family size may be different from the number of exemptions you claim on your federal tax return. By signing this form, you are certifying that the family size you enter above is correct.
8. Did you file a federal income tax return for either of the two most recently completed tax years?
   [ ] Yes – Continue to Item 9
   [ ] No – Skip to Section 5

9. Is your current income or your spouse’s current income (if you completed Section 3 or file a joint federal income tax return) significantly different than the income used to determine the Adjusted Gross Income* (AGI) reported to the IRS on your most recently filed federal income tax return?
   [ ] Yes – Skip to Section 5.
   [ ] No – Provide your most recently filed federal income tax return or IRS tax return transcript. Skip to Section 6.

*You can find your Adjusted Gross Income on your most recently filed IRS Form 1040, 1040A, or 1040EZ.

SECTION 5: ALTERNATIVE DOCUMENTATION OF INCOME – To be completed only if you answer “no” to question 8 or “yes” to question 9.

To be completed if you answer “no” to question 8, “yes” to question 9, or your loan holder(s) informed you that alternative documentation of income is required.

10. Do you have taxable income? Check “No” if you do not have any income, receive only untaxed income, such as Supplemental Security Income, child support, or federal or state public assistance, are not required to file a federal income tax return based on the amount of your taxable income.
   [ ] Yes – Provide documentation of this income, as described below.
   [ ] No – By signing this form, you are certifying that you have no taxable income or are not required to file a federal income tax return based on the amount of your taxable income.

11. If you are married and completed Section 3 or file a joint federal income tax return with your spouse, does your spouse have taxable income? Check “No” if your spouse does not have any income, receives only untaxed income, such as Supplemental Security Income, child support, or federal or state public assistance, or is not required to file a federal income tax return based on the amount of his/her taxable income.
   [ ] Yes – Provide documentation of your spouse’s income, as described below.
   [ ] No – By signing this form, your spouse is certifying that he/she had no taxable income or is not required to file a federal tax return based on the amount of his/her taxable income.

You must provide documentation of your total annual taxable income that you currently receive from all sources (for example, income from employment, unemployment income, dividend income, interest income, tips, alimony). If you are married and file a joint federal income tax return, you must also provide documentation of your spouse’s annual taxable income. Do not report untaxed income such as Supplemental Security Income, child support, or federal or state public assistance.

You must provide one piece of supporting documentation for each source of income (your’s and your spouse’s), for example, pay stubs, letters from your employers listing income, interest or bank statements, dividend statements, or, if these forms of documentation are unavailable, a signed statement from you...
For Public Service Loan Forgiveness (and Pay As You Earn), FFEL loans MUST be consolidated into federal direct

http://loanconsolidation.ed.gov/
Federal Direct

• The one and only RIGHT kind of loan

FFEL, Perkins

Must be consolidated into Federal Direct

Private, alternative, commercial, bar study loan

• WRONG and can’t ever be right
Repeat 120 times
on time payments
once a month for 10-years
Prove it

apply for forgiveness
Prove it

verify income & family size annually

certify employment annually

Must be in qualifying employment when each of 120 payments are made, AND when applying for forgiveness, AND when forgiveness is granted

apply for forgiveness
Loan Repayment Assistance Programs and Loan Forgiveness

- School-Based LRAPs
- State-Based LRAPs
- Employer LRAPs
- Public Service Loan Forgiveness
- Profession specific programs
- Income-driven repayment plan forgiveness
Questions?
HEATHER JARVIS
Student Loan Expert
askheatherjarvis.com