

# Public Service Loan Forgiveness

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# What is Public Loan Forgiveness?

- The College Cost Reduction and Access Act of 2007 established a new public service loan forgiveness program. This program discharges any remaining debt after 10 years of full-time employment in public service.
- Income contingent and income-based repayment plans without holding a public service position are usually 20-25 years in length

# What are Public Service Jobs

School-based services	Government (except Congress)	Public health
Early childhood education	Military service	Public/school librarians
Faculty teaching in high-need subject areas/shortage areas	Public safety and law enforcement (police, fire, etc.)	Social work in a public child or family service agency
Public education including faculty at community colleges	Public interest legal services	Public services for individuals with disabilities or the elderly
Full-time faculty at tribal colleges and universities	Emergency Management	Employees of tax exempt 501(c)(3) organizations

# Eligibility

- Must have a Federal Direct Loan
  - private loans are not eligible
- 120 monthly payments made **on time** after October 1, 2007
  - Payments made before October 1, 2007 do not count
  - Periods of deferment and forbearance are not counted
  - Advanced payments do not count
  - payments have to be on time, but they **do not** have to be consecutive
- Must be employed full-time in a public service job while making the 120 monthly payments
  - Full-time status is at least 30 hours per week, unless the employer deems full-time to be more than 30 hours, in which case the higher of the two must be met.

# What Types of Loans are Eligible

- Federal Direct Stafford Loans (Subsidized and Unsubsidized)
- Federal Direct PLUS Loans
- Federal Direct Consolidation Loans
- Direct Loan Borrowers do not need to consolidate in order to qualify
- Borrowers in the FFEL program **will** need to consolidate into Direct Loans
  - Go to [loanconsolidation.ed.gov](http://loanconsolidation.ed.gov)
  - ALWAYS ask for income-based or income-contingent repayment options, as these are not provided on standard application.
- Federal Direct = U.S. Dept. of Education

# What Types of Loans are Eligible

- Perkins Loans are not eligible, unless included in a Federal Direct Consolidation Loan
  - When choosing to consolidate a Perkins Loan, a borrower forfeits the right to original loan benefits such as subsidized interest, a nine month grace period, and a generous loan forgiveness program
- Parent PLUS loans are nominally eligible
  - These loans are NOT eligible for income-based repayment or income-contingent repayment (unless part of a consolidated loan), which renders the benefit of using Public Service Loan Forgiveness as non-existent.
- Grad PLUS loans are eligible
  - Income-contingent repayment only after 7/1/2009
  - Available 7/1/2006 if part of consolidation loan

# Key Factors to Remember

- Once you are eligible to start the 120 month repayment period, you must have your full-time employment certified.
  - Must re-certify EVERY year after this as well
  - Form available through U.S. Dept. of Education
- Once 120 month period is complete, borrower must file a PSLF application to finalize loan forgiveness.
  - This application will not be available until 2017
- Only students with loans taken out after 7/1/2006 are eligible
- Borrowers can only use income-based, income-contingent, or standard repayment plans (or combo of these three). Extended and graduated repayment do not count. To maximize forgiveness, use income-based repayment
- Public Service Loan Forgiveness is NOT taxable; Other options involve savings that ARE taxable

# Caveats

- This program is targeted at students with high debt and low income. It won't be much help to those with low debt and moderate or high income.
- The benefit of this program is all-or-nothing. If you are even one payment short and stop working in a public service position, you will not get forgiveness.
- The main impact of the public service loan forgiveness option is to remove debt as a disincentive to pursuing a career in public service.



# Income-Based Repayment (IBR)

- To qualify for IBR, you must have a *partial financial hardship*, meaning the monthly amount you would be required to pay under a 10-year Standard Repayment Plan is higher than the monthly amount you would pay under IBR.
  - Payment amount may increase or decrease each year based on income and family size
  - Once initially qualified for IBR, borrower may continue to make payments under the plan, even if you no longer have a partial financial hardship
  - Payments are made over a period of 25 years
  - To calculate eligibility for partial financial hardship, there are numerical guidelines based on income and family size

# Advantages of IBR

- **Payment based on earnings**
  - Monthly payment is equal to 15% of discretionary income (money available after basic living expenses)
- **Interest Payment Benefit**
  - If your monthly IBR payment amount doesn't cover the interest that accrues each month, the government will pay your accrued interest for up to three consecutive years from the date IBR repayment began
- **Limitation on the Capitalization of Interest**
  - During Partial Financial Hardship, interest that accrues but is not covered by the loan payment will not be capitalized, even if interest accrues during deferment or forbearance
- **25-Year Forgiveness**
  - Any remaining balance will be forgiven after 25 years
- **10 year Public Service Loan Forgiveness option**

# Disadvantages of IBR

- **Possibility of More Interest**
  - A reduced monthly payment with IBR usually leads to a longer repayment period overall, which equates to more interest over time
- **Must Submit Annual Documentation**
  - Loan servicer needs information each year on income and family size
  - If not provided, payment amount will increase by default and interest will capitalize
- **Taxes owed after 25 years**
  - Any amount that is forgiven after the 25 year loan period is viewed by the government as taxable income
  - This is not the case with the 10 year Public Service Loan Forgiveness Plan, where money forgiven goes untaxed.

# Income-Contingent Repayment (ICR)

- Similar to IBR in terms of how it is calculated, except ICR is eligible on loans prior to 07/01/2009, whereas IBR is not
- Only available under Federal Direct Loan Program
- Covers Direct Parent PLUS loans that are part of a consolidated loan, whereas IBR does not
- Monthly payment is higher than IBR, and can sometimes be higher than the monthly payment would be under a 10-Year Standard Repayment Plan
- With ICR, borrower is responsible for paying all of the interest that accrues, and unpaid interest is capitalized annually. Unpaid interest is capped at 10% of the original loan amount, with any additional interest included but not compounded.

# Upcoming Programs

- Pay As You Earn (PAYE) Program
  - Set to begin next summer (2013)
  - Monthly payment amount is equal to 10% of discretionary income, with a total loan forgiveness period of 20 years
  - Borrower must have NEVER taken out a school loan prior to 07/01/2007. Even if you took out a loan prior to that date and have since repaid in full, you are still not eligible for PAYE
    - Very small window of eligibility; only for young students or older students who never took out undergraduate loans

# Eligibility Continued: FFEL Borrowers

- Beginning on July 1, 2008, FFEL borrowers may obtain a Federal Direct Consolidation Loan in order to qualify for public service loan forgiveness even if they had previously consolidated in the FFEL program.
- Borrowers will be restricted to the income-based repayment, income-contingent repayment and standard repayment plans.
- Before July 1, 2008, FFEL borrowers who have **not** yet consolidated may obtain a Federal Direct Consolidation Loan in order to obtain income contingent repayment by stating that they are unable to obtain income sensitive repayment terms acceptable to the borrower.
- Before July 1, 2008, FFEL borrowers who have **already** consolidated in the FFEL program are only able to obtain a Federal Direct Consolidation Loan with income-contingent repayment terms if their loans have been selected by a guarantee agency for default aversion.

# Employer Certification Form

- The US Department of Education released an employment certification form and instructions on January 31, 2012
- Use of the employment certification form is *recommended* but not required
- Upon submission, the US Department of Education's servicer will inform the borrower whether the employment reported on the form satisfies the requirements for public service loan forgiveness. Borrowers will also be able to track their progress toward obtaining public service loan forgiveness
- After the borrower has fulfilled the requirements for public service loan forgiveness (i.e., made 120 qualifying payments while working full-time in a qualifying public service job), the borrower will need to file a PSLF application to obtain the loan forgiveness

# Repayment: Grace period

- In general, for any repayment approach, if there is a grace period involved, such as the 9 months offered to Perkins loan holders (assuming they do not consolidate, etc), the grace period starts even if you are still a part time student, but ONLY if your credit hours are equal to less than 50% of what is considered full-time.
- If you are enrolled in 50% or more credit hours based on that school's definition of full-time enrollment, you are still technically in school and the grace period will not yet begin.



# Helpful Links

- <http://www.finaid.org/loans/forgiveness.phtml>
- [www.askheatherjarvis.com](http://www.askheatherjarvis.com)
- For a list of helpful terms and definitions, go to <http://www.nelnet.com/Terms-To-Know/>