Financing Your Legal Education in This Economy

Barnard College/Columbia U.
February 4, 2013
Stephen Brown, Fordham Law School
Investment

- Purchase of a product with an expected appreciation or favorable return
- Involves speculation
- Risk
- Expectations for return are personal
- May be good or bad
Not all students can be in the top 10% (25%, half) of the class

“If I understood math, I would be in Business School!”
A Financial Aid Primer
Goals for this session...

- Not an attempt to teach you to be a Financial Aid Officer!! (unless that is your secret desire!)
- Introduce you to the language, the philosophy
- Introduce important financial aid products
  - Mostly loans
  - Other institutional aid
- Introduce credit and credit reporting
- Federal Loan Repayment Assistance Program
- Look at “big picture” financing issues
Need versus Merit (or both?)

- What is going on?
- Rankings
- Dissolution of “Overlap Group”
- Strict needs assessment
  - FAFSA, Profiles, Need Access
- Strict merit or other criteria
- Intersection of merit with need, need with merit
- Renewability
Financial Aid for Law Students

- No Pell Grants or SEOG
- Very little state or private grants
- Federal loans
  - Direct Loans
  - Direct GradPLUS,
  - Perkins?
- Private Loans
- School-based aid
  - Grants, Scholarships, Fellowships, TA, RA, etc.
Federal Requirements

- U.S. Citizen or Permanent Resident
- Completed a FAFSA
- Registered with Selective Service
- Not in default
- Not convicted of federal drug offense
- All grad/prof students independent
FAFSA
Free Application for Federal Student Aid

- Calculated Estimated Family Contribution (EFC) for Federal aid - fafsa.ed.gov
- Free - no cost
- Must be completed each year
- Student may specify up to ten schools
- School specific regarding parents’ info
- Federal – US Citizens/Permanent Residents only! F1/J1 not eligible
Student Expense Budget

- aka Cost of Attendance (COA)
- Important concept for federal aid
- If $1 in federal aid (Stafford/Ford, Perkins, FWS) total aid must not exceed
- Set by individual schools
- Reasonable estimate of ...
Student Expense Budget

- Tuition and Fees
- Room and Board
- Books and Supplies
- Personal Expenses
- Transportation
- Dependant care
- Actual cost of a computer
- Disability needs
Federal Provisions

- Can be consolidated
- 5 repayment options
- IBR can be used
- Deferment
- Forbearance
- Discharged for death or disability
Federal Perkins Loan

- Campus-based federal loan
- No origination fees
- 5% interest rate
  - Subsidized
- 9 month grace period
- Deferment/forbearance
- Forgiveness for
  - Law enforcement
  - Direct services to at risk children
  - Death/disability
- Not available at all schools
- $8,000 annual maximum loan
Federal Direct Student Loan

- Unsubsidized - interest accrues, but may be deferred
- $20,500 annually
- 6.8% fixed interest
- 1.0% origination fees
Federal GRAD PLUS Loan

- Another great naming challenge
- Not for Parents, is a Loan, not for Undergraduates, but grad Students
- 4% origination fee
- 7.9% fixed interest
- Up to Cost of Attendance less other aid
- Requires an absence of bad credit
Absence of bad credit

- Only about 86% approval in 10/11
- NO current account 90 days or more past due - amazing!
- NO Default, Bankruptcy, Discharge, Foreclosure, Repossession, Tax Lien, Wage Garnishment, Write-off of a Title IV Debt, Open Collection within 5 years
Credit Reporting

- www.annualcreditreport.com
- www.experian.com
- www.equifax.com
- www.transunion.com
- www.creditkarma.com
Federal Work Study

- Hourly pay
- 75%/25% federal/school match
- Work on or off campus
- Must pay at least minimum wage
- Cannot replace regular employee
Federal Loan Consolidation

- “Weighted Average interest rate”
- Allows students to lock in “in-school” versus “in repayment” rate
- Forgiven for death/disability
- Deferment/forbearance
- Required for federal public service loan forgiveness!
- Special !?!
Private Loans

- Consumer educational loans
- Few and far between
- No federal guarantee - no collateral
- Origination and Guarantee Fees
- Market-rate interest
- Credit-based
- Rates/terms set based on student credit, school default rate, school guarantee, or all
- NOT discharged for death or disability
If you need PLUS or private loans in addition to your Stafford loans and cannot borrow,
you may not be able to attend!
Income Driven Federal Repayment

- IBR and PAYE formulas for calculating monthly payments on federal student loans
  - FFELP or Direct
  - Direct, Stafford, Grad PLUS, Federal Consolidation
    - Not parent PLUS or consolidation loan containing PLUS
  - Borrower experiencing “partial economic hardship”
PAYE eligibility requirements

- “New Borrower” as of October 1, 2007
  - No outstanding balance on FFELP or Direct as of October 1, 2007 or no outstanding balance on FFELP or Direct Loan when you received new loan after 10/1/07
- Received disbursement of Direct Loan after October 1, 2011
- October 1, 2011 includes Direct Consolidation Loan
IMPORTANT

- Must apply annually to IBR and PAYE!
- Online
- Release prior year tax forms electronically
- Must affirm that “The information on my prior year tax form substantially represents my current financial situation” or similar
- Can use alternative documentation of income form if prior year tax form inaccurate (paper)
Economic Hardship

- Borrower in repayment is experiencing partial economic hardship when...
  - Loan payments exceed 15% of income above 150% of poverty level
  - PAYE 10% if income above 150%
- Borrower experiencing partial economic hardship may elect to pay under IBR or PAYE

Yes, you have seen this before!
Adjusted Gross Income

- Prior year Adjusted Gross Income
  - 1040 – line 37
  - 1040A – line 21
  - 1040EZ Line 4
- If married filing jointly, both incomes*
- If married, filing separately, only
  (PL110-153)
- Lender may accept alternative documentation
  - Changes in income
- * After July 1, 2010, both education loan debts also count
Federal Loan Payments

- Monthly payments on FFELP or Federal Direct Loans,
- Stafford,
- Grad PLUS and/or
- Federal Consolidation Loans

- DIRECT ONLY FOR PAYE
Interest subsidy

- If payments do not cover outstanding interest
  - Negative amortization
  - Secretary of Education pays remaining interest due on subsidized loans
    - Or sub portion of Consolidation
  - Up to 3 years
Negative Amortization

- “Negative” – sounds bad
  - And it is!
- Payments do not cover the interest due on the loans
  - $100,000 at 6.8% = $6,800/yr = $566.67/mo
  - @ $40k income = $290
  - $567-290 = $277/mo accruing interest not paid

- Capitalized when leave IBR or PAYE or no Partial Financial Hardship
Loan Cancellation

- Yes, after enough eligible payments under IBR or PAYE
- If $0 calculated payment, payment counts
- Currently considered a taxable event
IBR after 25 years

- If borrower made 25 years of payments under
  - IBR (Income Based Repayment)
  - ICR (Income Contingent Repayment)
  - Standard Repayment (10 year term)
- and still has a balance...

The remainder is forgiven!
But taxable!
PAYE after 20 years

- If borrower made 20 years of payments under
  - PAYE (Pay as You Earn)
  - IBR (Income Based Repayment)
  - ICR (Income Contingent Repayment)
  - Standard Repayment (10 year term)
- and still has a balance...

The remainder is forgiven!
But taxable!
And if I become rich and famous?

- May no longer be experiencing PEH
- May choose to leave IBR or PAYE
  - Loans become due by end of prior repayment plan – but may switch
- May choose to stay in IBR or PAYE
  - Pay original 10 year amortized payment
    - But may take longer than initial 10 years to repay
For example...

- $40,000 income = $290 payment
- $100,000 debt (at 6.8%) = $1,155 monthly payment
- 4 years of partial financial hardship
- Then rich and famous!
- Will have paid $13,920 towards loans
- $104,000 still due
- Will take 129 additional months to repay
## Estimated Net Income Table
(Single Earner, No Dependents, NYC Resident,)

<table>
<thead>
<tr>
<th>Gross Income</th>
<th>Net Monthly</th>
</tr>
</thead>
<tbody>
<tr>
<td>$50,000</td>
<td>$2,990</td>
</tr>
<tr>
<td>$55,000</td>
<td>$3,227</td>
</tr>
<tr>
<td>$60,000</td>
<td>$3,464</td>
</tr>
<tr>
<td>$65,000</td>
<td>$3,701</td>
</tr>
<tr>
<td>$70,000</td>
<td>$3,938</td>
</tr>
<tr>
<td>$75,000</td>
<td>$4,175</td>
</tr>
<tr>
<td>$80,000</td>
<td>$4,412</td>
</tr>
<tr>
<td>$85,000</td>
<td>$4,649</td>
</tr>
<tr>
<td>$90,000</td>
<td>$4,885</td>
</tr>
<tr>
<td>$95,000</td>
<td>$5,114</td>
</tr>
<tr>
<td>$100,000</td>
<td>$5,339</td>
</tr>
<tr>
<td>$105,000</td>
<td>$5,563</td>
</tr>
<tr>
<td>$110,000</td>
<td>$5,804</td>
</tr>
</tbody>
</table>
Questions – IBR or PAYE

Moving right along...
Federal Public Service Loan Forgiveness
Federal Loan Forgiveness for Public Service

- 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 IRS Code and exempt from taxation, or teaching as a full-time faculty member at a Tribal College or University and other faculty teaching in high-needs areas, as determined by the Secretary.
Too much text

- Full Time
- Government
  - Federal, State, local, tribal
- Non-Profit
  - 501(c)3 corporation
- Perhaps other “public service” for other types of employers
Federal Loan Forgiveness for Public Service

- Greatest thing since sliced bread!
  - Or maybe not!
- Only Federal Direct Loans
- Can use PAYE, IBR, ICR or 10 year standard
  - Or other with minimum 10 year amort payment
- 120 payments while in eligible employment
  - Need not be consecutive
- IBR and PAYE - If no PFH, revert to original monthly payment (10 year amortization)
- Not a taxable event
Remember:

- Negative amortization
- Maximum payment is original 10 year amortized monthly payment
- Once no longer partially economically hardship may have to repay for more than 10 more years!
Look Familiar?

<table>
<thead>
<tr>
<th>AGI</th>
<th>IBR</th>
<th>PAYE</th>
</tr>
</thead>
<tbody>
<tr>
<td>$30,000</td>
<td>$165</td>
<td>$110</td>
</tr>
<tr>
<td>$40,000</td>
<td>$290</td>
<td>$194</td>
</tr>
<tr>
<td>$50,000</td>
<td>$415</td>
<td>$277</td>
</tr>
<tr>
<td>$60,000</td>
<td>$540</td>
<td>$360</td>
</tr>
<tr>
<td>$70,000</td>
<td>$665</td>
<td>$444</td>
</tr>
<tr>
<td>$80,000</td>
<td>$790</td>
<td>$527</td>
</tr>
<tr>
<td>$90,000</td>
<td>$915</td>
<td>$610</td>
</tr>
<tr>
<td>$100,000</td>
<td>$1,040</td>
<td>$694</td>
</tr>
</tbody>
</table>
Other issues

- If you borrow more, more is forgiven!
- How clear is the crystal ball?!?
- Peace Corps/Americorps
- Guaranteed forgiveness? Politics.
- Record keeping
- “combination of public service organizations”

- What if life happens?
Have I exhausted you yet?

- Questions
- Comments
- Snide Remarks
Stephen Brown
Fordham Law School
sbrown@law.fordham.edu
212 636 7178