

Northwestern's LRAP Program:

The nuts and bolts you need to know



History of Loan Repayment Assistance at Northwestern Law



- First program in 1984: LRAP
- Major revisions in 2002: Public Service Fellowship Program
- Enactment of College Cost Reduction and Access Act (CCRAA) of 2007 gave all law schools a reason to reexamine their loan forgiveness programs
- Group of students, faculty and administrators met in 2009-10 to revise the program again.

College Cost Reduction and Access Act

- The College Cost Reduction and Access Act (CCRAA) of 2007 helps public service lawyers in two essential ways:
 - Income-Driven Repayment Plans
Several program options that lower monthly student loan payments on federally guaranteed student loans.
Example: Income-Based Repayment (IBR) - Annual debt payments under IBR capped at 15% of *discretionary income* (defined as adjusted gross income minus 150% of the poverty level for the borrower's family size).
 - Public Service Loan Forgiveness
Cancels remaining debt for public servants after 10 years of public service employment



CCRAA Provisions

- Only for federal educational loans
- Must consolidate into Direct Loan program
- Any type of employment qualifies for IBR or other income-driven plans
- Income-driven payments may be so low that they do not cover interest
- Last week's program provided more details on CCRAA – will be made available in a PowerPoint on CareerSpace

LRAP: Eligibility

- Job must require a JD or fall within the ABA's definition of a "JD Advantage" position
- Start job immediately after graduation or after a clerkship
- Must spend entirety of LRAP award on student loan payments



LRAP: Income Calculation (resulting in NU AGI)

- Income is the higher of the graduate's individual income or the average of the graduate's income and that of his or her spouse, minus the deductions below.
 - Deductions from income of \$5000 for each child and for a spouse.
 - Deductions taken from income for annual payments made towards undergraduate and other educational non-law school debt.

LRAP: IBR Calculation

- Use NU AGI with a household of one
- Use only Northwestern law school loans
- We have online calculator and so do sites like FinAid.org.
- NU calculation for IBR may be different than CCRAA calculation because we use NU AGI and household of one.



LRAP: Unpaid Interest Calculation

- Unpaid Interest Calculation
 - Relevant for first 5 years of LRAP eligibility
 - Use online calculator for a standard ten year repayment based on current estimated blended interest rate (currently 8%). This rate might vary from year to year.
 - Calculate unpaid interest on law school loans.



- The unpaid interest figure is the interest portion of a standard ten year payment for year one, month one.

Income Cap, Award Maximum & Taxes

- No income caps
- No maximum award cap
- Tax issues
 - Participants must use the entire award to pay educational debt.
 - Awards will be given in the form of forgivable loans
 - If these two conditions are met, the awards should be not subject to taxation as income



Formula During Years 1-5



	Law School Debt	>\$150,000	\$100,000-149,000	\$50,000-99,999	<\$50,000
NU AGI <\$45,000		100% IBR + 75% UI	100% IBR + 50% UI	100% IBR + 25% UI	100% IBR
\$45,000-54,999		75% IBR + 75% UI	75% IBR + 50% UI	75% IBR + 25% UI	75% IBR
\$55,000-64,999		50% IBR + 75% UI	50% IBR + 50% UI	50% IBR + 25% UI	50% IBR
\$65,000-74,999		25% IBR + 75% UI	25% IBR + 50% UI	25% IBR + 25% UI	25% IBR
>\$75,000		50% UI	50% UI	50% UI	50% UI



Formula During Years 6-10

Graduates can participate for ten years; reduced awards in years 6-10 as unpaid interest component is phased out.

- In years 6-10, awards granted using same sliding scale used in years 1-5 minus unpaid interest amount; provides reduced award for those on their way to forgiveness
- Students who choose to leave after several years have been paying on the unpaid interest so the cost of leaving will not be so great.

NU AGI	Award
<\$45,000	100% IBR
\$45,000-54,999	75% IBR
\$55,000-64,999	50% IBR
\$65,000-74,999	25% IBR
>\$75,000	

Sally Student Debt Example

- First year loans (2016-17) \$56,457
- Second year loans(2017-18) \$67,005
- Third year loans (2018- 19) \$69,145
- **Total Debt at graduation \$192,607**



*Combination of Unsubsidized Stafford and GradPLUS loans.

Sally's Repayment on Standard Plans

Under 10 year plan

– Per month payment	\$2,314
– Total accrued interest	\$85,706
– Total amount paid	\$277,783

Under 25 year plan

– Per month payment	\$1,462
– Total accrued interest	\$246,821
– Total amount paid	\$438,898

What if Sally Chooses IBR?



- Debt: \$192,607
- Starting income: \$46,000
- Yearly payment under 10-yr plan: \$27,768

- New annual first-year payment under CCRAA: **\$4,452 (\$371/month)**
- After ten years of public service, Sally's remaining federal loan debt will be forgiven.

Sally's award under LRAP



YEAR ONE

- Debt: \$192,607
- Starting income: \$46,000
- Annual IBR payments under year one of CCRAA: \$4,452
- Annual Unpaid Interest under year one of CCRAA: \$9,176

- Her first year under the new program, Sally would receive:
 - 75% of her annual IBR payment: \$3,336
 - plus 75% of Unpaid Interest: \$6,882
- Her annual LRAP award would be **\$10,218**
 - She would be able to make her IBR payments plus pay down most of her unpaid interest.
 - If she also uses some of her own money to make payments, she could pay all interest and some principal

The Calculator

- Our calculator and details about LRAP are at
<http://www.law.northwestern.edu/admissions/tuitionaid/loans/lrap.html>
- Urge you to use it to explore different scenarios



Questions?

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