

## College Cost Reduction and Access Act of 2007

The College Cost Reduction and Access Act (CCRAA) was signed into law on September 27, 2007. The law creates a new loan repayment program and loan forgiveness option for borrowers. Borrowers who meet the requirements outlined in the law may be eligible to have a portion of their student loan debt forgiven.

There are **two separate and distinct** components:

1) **Income-based repayment (IBR)** and

2) **Loan Forgiveness**

### INCOME-BASED REPAYMENT (IBR)

The Income Based Repayment option takes effect beginning July 1, 2009. Loan payments will be limited to 15 percent of a borrower's discretionary income or 15 percent of the amount that a borrower's adjusted gross income exceeds 150 percent of the poverty line, divided by 12. Borrowers may remain in IBR more than 10 years. Borrowers currently repaying loans according to income-contingent repayment or income-sensitive repayment plans will have the choice to continue in their current plans or may participate in the program created by this law.

#### Which loans are eligible for IBR?

- **All Federal Direct Loans (FDL) and federally guaranteed loans (FFEL)** are eligible for IBR including: subsidized and unsubsidized Federal Stafford loans; Federal Grad PLUS loans and Federal Direct Consolidation loans.
- **Loans made by a state or private lender and not guaranteed by the federal government are never eligible.** Parent PLUS loans are not eligible for IBR. Federal Perkins Loans are only eligible when part of a Federal Direct Consolidation Loan. Borrowers should seek advice before consolidating a Perkins loan because Perkins loans include cancellation provisions.

### LOAN FORGIVENESS

Loan Forgiveness cancels the remaining debt after 10 years of public service employment and after 25 years for all other borrowers.

The Secretary of Education will cancel the balance of any interest and principal due on any Federal Direct Loan - including Direct Stafford, PLUS, or Consolidation Loan - that is not in default of a borrower who:

- **Has made 120 Federal Direct payments** or ten years of payments (whichever is longer) after October 1, 2007 **and is employed in a "public service job at the time of the 120<sup>th</sup> payment.** The borrower must have been employed in a public service job during 120 payment periods. (A public service job is defined as a full-time job in emergency management, government, military service, public safety, law enforcement,

public health, public education, social work, public interest law services, child care, public library sciences, or any other job at an organization that is described in section 501(C)(3) of the Internal Revenue Code of 1986.)

- Periods of deferment and forbearance are not counted toward the payments. Payments made before October 1, 2007 do not count.
- Borrowers may consolidate into Direct Lending in order to qualify for this loan forgiveness program starting July 1, 2008.
- The Department will **repay or cancel any outstanding loan principal and interest for all borrowers (regardless of type of employment) after 25 years of repayment.**

### **Which loans are eligible for Loan Forgiveness?**

- Eligible loans include federal Direct Stafford Loans (Subsidized and Unsubsidized), Federal Direct Grad PLUS Loans, and Federal Direct Consolidation Loans. Borrowers in the Direct Loan program do not need to consolidate in order to qualify for loan forgiveness. Borrowers in the FFEL program will need to consolidate into Direct Loans.
- Although the Federal Perkins Loans are not eligible for public service loan forgiveness, if they are included in a Federal Direct Consolidation Loan the entire consolidation, including the Federal Perkins Loans, is eligible for public service loan forgiveness. One may use the income-based repayment and income-contingent repayment on such a consolidation loan.
- Federal Perkins loan borrowers will need to consider the tradeoffs of including the Perkins loans in a Federal Direct Consolidation loan. When Federal Perkins loans are consolidated, they lose several favorable benefits, such as subsidized interest, a 9 month grace period, and a generous loan forgiveness program.

### **OTHER CONSIDERATIONS**

- Under current tax law, cancelled and forgiven debts are generally treated as income and your forgiven debt may be taxed as income. There is strong pressure to have Congress amend the tax code to exclude such loan forgiveness from taxable income, before this becomes an issue in 2017.
- If you file income tax as “married, filing separately,” your spouse’s income will not be counted when calculating loan repayments.
- You must be employed in the public service area when forgiveness is requested as well as when your IBR payments are made.

### **BENEFITS FOR INDIVIDUALS BEGINNING REPAYMENT BEFORE JULY 1, 2009**

Payments made after October 1, 2007 on a Federal Direct Loan count toward the 120 payments required for forgiveness. To benefit, the borrower must have a Federal Direct Loan or Federal Direct Consolidation Loan. Borrowers planning on 10 year careers in a job eligible for forgiveness may want to obtain a Federal Direct Consolidation Loan and begin payments under an income contingent repayment (ICR) plan (thus paying as little as possible). It appears that borrowers may elect to change the repayment plan from income contingent to income based

after July 1, 2009, but there is a possibility that the borrow might need to obtain a new Federal Direct Consolidation Loan.

#### **FOR MORE INFORMATION**

- Equal Justice Works at [www.equaljusticeworks.org](http://www.equaljusticeworks.org)
- [www.FederalStudentAid.ed.gov](http://www.FederalStudentAid.ed.gov), click on “Students, Parents and Counselors,” “Announcement” section
- Smart Student Guide to Financial Aid: <http://www.finaid.org/>,  
<http://www.finaid.org/loans/icr.phtml>
- National Association of Law Professionals (NALP):  
[http://assets.wnec.edu/14/College\\_Cost\\_Reduction\\_Act,\\_NALP,\\_Dec.\\_2007.pdf](http://assets.wnec.edu/14/College_Cost_Reduction_Act,_NALP,_Dec._2007.pdf)