



The Student Loan Borrower Assistance Project (SLBA) is a program of the [National Consumer Law Center](#) (NCLC).

Summary of College Cost Reduction and Access Act of 2007 October 2007

Congress passed the College Cost Reduction and Access Act in September 2007 and President Bush signed it into law on September 27. (It is now Public Law #110-84).

This summary highlights a few of the most important changes for borrowers. For more information about the bill, go [here](#).

KEY CHANGES

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1. PELL GRANT INCREASES

The maximum Pell grant awards were increased by \$490 in 2008-09 and 2009-2010, \$690 in 2010-2011 and 2011-2012, and \$1,090 in 2012 and 2013.

2. INTEREST RATE REDUCTIONS

Interest rates will be gradually reduced for Stafford subsidized loan borrowers only. The cuts will apply to loans disbursed after 2007. You will not get the benefits of these interest rate cuts if you already have student loans.

The new rates will be:

- 6.8% for loans first disbursed July 1, 2006 to July 1, 2008
- 6% for loans first disbursed July 1, 2008 to July 1, 2009
- 5.6% for loans first disbursed July 1, 2009 to July 1, 2010
- 4.5% for loans first disbursed July 1, 2010 to July 1, 2011
- 3.4% for loans first disbursed July 1, 2011 to July 1, 2012.

3. DEFERMENT FOR CERTAIN MEMBERS OF THE ARMED FORCES

Congress eliminated the three year limit on military deferments and expanded eligibility to include the six month period following qualified service members' demobilization dates.

4. INCOME BASED REPAYMENT (IBR)

Combined with the new public service forgiveness program, Congress has moved closer to a universal cap on monthly government student loan payments and a limit on the total years borrowers must repay student loans.

The new income-based repayment program (IBR) is similar to the current income contingent repayment plan (ICRP) that is available through the Direct Loan Program. Both programs allow borrowers that make payments for 25 years to get a cancellation of the remaining balance owed. There are some important differences between the two programs, including:

- The formula for calculating payments under IBR will be better for most borrowers than the ICRP formula.
- The IBR is available through both the FFEL and Direct Loan programs. ICRP is only available through Direct loans.

The IBR will not be available until July 1, 2009.

If you are currently repaying your loans through a Direct Loan ICRP, you may want to switch to IBR when it becomes available in 2009. By that time, the Department should have clarified whether the payments you have already made through ICRP will be counted toward the IBR cancellation period. Depending on how this turns out, you may have to weigh the benefits of lower payments in IBR against possibly starting the clock toward loan forgiveness over again. Stay tuned on this issue.

Who is eligible for IBR?

1. **Partial Financial Hardship:** Borrowers must have a partial financial hardship in order to qualify for the IBR. Partial financial hardship (PFH) means that a borrower's annual student loan payments under a ten year standard repayment plan are greater than 15% of the amount by which the borrower's adjusted gross income (and that of a spouse if applicable) exceeds 150% of poverty.

This formula is better than ICRP which caps payments at no more than 20% of the amount above 100% of poverty. However, ICRP also has an alternate formula which calculates the amount the borrower would repay annually over twelve years using standard amortization multiplied by an income percentage factor. It is possible that under this formula, an ICRP might lead to lower payments for a small subset of borrowers.

For example:

Joe's monthly student loan payment is \$400 under a standard ten year plan (this is typical for about \$30,000 in student loan debt). His annual payments would be \$4800. His adjusted gross income is \$25,000. He is single. Using 2007 poverty figures, the poverty level for the 48 contiguous states is \$10,210. 150% of that amount is \$15,315.

Joe's income is \$5685 above 150% of poverty. 15% of \$5685 is \$852.75. He has a partial financial hardship because his annual student loan payments under a standard ten year plan (\$4800) are greater than 15% of the amount by which his AGI exceeds 150% of poverty (\$852.75). Finaid.org has an IBR [calculator](#).

The payments due on graduate PLUS loans are counted toward a borrower's total student loan balance for purposes of determining IBR. However, grad PLUS loans are not eligible for cancellation under this program.

- 2. Cap on Payments:** If the borrower has a PFH, the monthly student loan payment is capped at 15% of adjusted gross income above 150% of poverty divided by 12.

Using the example of Joe from above:

Joe's monthly payments should be capped at \$71. ($852.75/12$)

- 3. Eligible Loans and eligible borrowers:** Borrowers with FFEL or Direct loans may select IBR. The only government loans that are not eligible for IBR are Parent PLUS loans and Perkins loans. However, Perkins loans borrowers may still repay through IBR if they have other loans and can consolidate with FFEL or Direct. Consolidation loans may be repaid through IBR unless the proceeds of the loan were used to discharge the liability on a parent PLUS loan. Private loans are not eligible. Graduate PLUS loans are counted when calculating partial financial hardship and may be repaid through IBR, but are not eligible for IBR cancellation

- 4. Borrowers in Default.**

Borrowers in default are eligible to repay through IBR. The Department may, however, come up with regulations that impose additional requirements.

What happens if the monthly payment does not cover interest?

The government will pay unpaid interest for a period not to exceed three years, excluding any economic hardship deferment time, only for subsidized Stafford loans. Interest that accrues after the three years for subsidized loans or at any time for unsubsidized loans is capitalized (added to principal) at the time the borrower chooses to end IBR or begins making payments of not less than the amount due based on the ten year repayment period when the borrower first elected IBR. This means that the borrower's standard ten year payments will be calculated on the balance due prior to capitalization. As a result, the law allows repayment for more than ten years.

Cancellation

Borrowers must repay for a period not to exceed 25 years. The Department could decide to shorten this period.

Cancellation will be granted to borrowers who elected IBR at any time and made payments for a period of 25 years through one or more of the following payment plans:

- IBR,
- Payments of not less than the amount due based on a ten year repayment period when the borrower first elected IBR,
- Standard repayment plan payments,
- ICRP payments, or
- Time spent in economic hardship deferment.

As with the current ICRP program, the twenty five year period does not have to be consecutive.

Other Key Provisions:

1. If a borrower chooses to leave IBR or no longer qualifies, his payments at that point must not exceed the amount he would have paid each month under a standard plan before he chose IBR. This means that it may take more than 10 years to repay because the balance will be higher if any interest was capitalized.
2. As with ICRP, payments could be 0.
3. The Secretary will set regulations for verifying income.
4. As with ICRP forgiveness, the amount cancelled will likely be taxable income. Hopefully Congress will address this critical issue.
5. Effective Date: The IBR becomes available in July 1, 2009.

5. ICRP MAXIMUM REPAYMENT PERIOD

The ICRP program remains the same for the most part. There is, however, a new provision with respect to the maximum repayment period.

Currently, if a borrower has not repaid a loan in full at the end of the 25-year repayment period under the ICRP, the unpaid portion of the loan is cancelled.

Under the new law, the maximum repayment period will be set by statute and will include all time periods during which a borrower is not in default on any loan that is included in the ICRP and:

- 1) Is in economic hardship deferment,
- 2) Makes monthly payments under IBR,
- 3) Makes monthly payments under a standard plan of not less than the amount calculated under this plan when the borrower first elected IBR,
- 4) Makes standard repayment plan payments, or
- 5) ICRP payments.

6. LOAN FORGIVENESS FOR PUBLIC SERVICE EMPLOYEES

This program is available to borrowers that work in public service jobs for ten years and repay their loans through an eligible repayment plan. The remaining balance is then cancelled after the ten year of service is completed.

Who Is Eligible for Public Service Forgiveness?

The program applies only to Direct loan borrowers, but it covers all types of Direct loans, including Stafford, PLUS and consolidation loans. Borrowers with other government loans can consolidate with Direct Loans in order to obtain this benefit, assuming they are eligible to consolidate. Borrowers with FFEL consolidation loans cannot re-consolidate for this purpose until July 1, 2008.

Borrowers in default on FFEL consolidation loans will be able to reconsolidate with Direct loans in order to pursue public service forgiveness.

Forgiveness/Cancellation

In order to qualify, borrowers must not be in default and have made 120 monthly payments on their loans AFTER October 1, 2007. Payments can be made through any one or combination of eligible repayment plans, including the new income-based repayment system, income contingent repayment, ten year standard plan payments, graduated or extended payments of not less than the monthly amount that would be due under a ten year standard plan.

Because the IBR will not be available until July 1, 2009, borrowers that need income-based repayment can select a Direct Loan ICRP and then later switch to an IBR. The

ICRP payments made after October 1, 2007 will count toward the ten year cancellation period.

The borrower must be employed in a public service job (defined below) at the time of the forgiveness and must have been employed in a public service job during the period in which she made each of the 120 payments. The repayment period does not include time spent in deferment or forbearance.

The public service job must be “full-time.” There is no requirement that the borrower must work in the same public service job for the entire ten year period. There is also no requirement that the ten years of public service be consecutive. Regulations will likely clarify these points.

It is likely that the cancelled amount will be taxable. There is no provision for tax relief in the bill. Congress may address this tax problem at some point as well as for IBR.

Definition of “Public Service Job”

The term “public service job” is defined as: “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.

The Department will be developing regulations to clarify which jobs qualify. Stay tuned on this as well.

7. DEFINITIONS FOR ECONOMIC HARDSHIP DEFERMENT

The definition of “economic hardship” for purposes of the economic hardship deferment is amended to conform to the definition of partial financial hardship to qualify for an IBR. Currently, a borrower working full-time is considered to have an economic hardship if her income does not exceed the greater of the minimum wage or the amount equal to 100% of the poverty line for a family of two. Under the new definition, the “100% of the poverty line for a family of two” is replaced by 150% of the poverty line applicable to the borrower’s family size.

The criteria for borrowers not working full-time should remain the same, including receipt of federal or state public assistance benefits.

8. EFFECTIVE DATE

Unless otherwise noted, the new law becomes effective on October 1, 2007. A key exception is that the IBR program will not go into effect until July 1, 2009. The ten year

clock for public service forgiveness, however, started as of October 1, 2007. Borrowers will not be able to access IBR since it will not yet be available, but they can repay through ICRP and then later switch to IBR.

Additional Information

[Q&A about IBR from the Project on Student Debt](#)

[Q&A about Public Service Forgiveness from the Project on Student Debt](#)