



# Michigan Law's Income-Based Debt Management Program

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Overview and Details of  
Michigan Law's  
Loan Repayment Assistance Program  
(LRAP)

*For Fall 2011 incoming students and later*



## Program Overview

Based on & supplementing the federal Income-Based Repayment (federal IBR) program, Michigan Law's Debt Management Program assists graduates in lower paying jobs:

- Regardless of maximum debt
- Regardless of private or public sector
- Regardless of location.

The program is structured so out-of-pocket costs decrease as income decreases.

## Key Michigan Law Program Benefits

- Full coverage is provided if income is below GS-11 (General Schedule pay rate for entry-level federal attorneys), currently about \$50,000. Pro-rated assistance (on an income-based sliding scale) is provided up to 175% of GS-11, about \$88,000.
- Both public and private sector legal jobs are eligible.
- Contingent on full-time employment and on-time payments, the federal government forgives all remaining debt for graduates after
  - 10 years in eligible public interest jobs and
  - 25 years in the private sector.
- Graduates in eligible public interest jobs pay for a small fraction of their law school education due to the combined benefits of the federal IBR and MLaw programs.
- In some cases, the federal IBR payments do not cover the accruing interest. MLaw provides a reserve (escrow) account at lower income levels to cover that scenario.

## Program Gem: Reserve Account for Unpaid Interest

- For eligible participants, MLaw places into a reserve account an amount equal to any unpaid interest (or portion thereof) resulting from the accrued interest being greater than the amount of the federal IBR payment.
- After two consecutive years, graduates who leave the program can request the money from the reserve and use it to pay down the accrued interest.
- The reserve mitigates any financial setback arising when graduates try public interest or lower income jobs for a few years and then change their minds.
- Graduates may enter and exit the program as needed but
  - payout from the reserve is available only once, and
  - must occur within five years of leaving the program.

## Your Role in the MLaw Program

- Step 1: Enroll in federal IBR.
- Step 2: Apply to the MLaw Debt Management Program by the appropriate deadline.
- Step 3: Reapply to the federal IBR and MLaw Program annually.
- Step 4: Review outcomes of increasing salary.

## Step 1: Enroll in Federal IBR

- Created in 2007 by federal law (with continuing modifications) in response to national, lender, and student loan holder concerns about graduate debt.
- Consult your loan servicer or the MLaw Office of Financial Aid as to whether federal IBR is the best repayment method for your situation.
- To further your inquiry and begin the application process, go to:

<http://studentaid.ed.gov/repay-loans/understand/plans/income-based>

## How Does Federal IBR Work?

- Monthly payment is based on income (not loan amount); the lower a graduate's income, the lower the graduate's federal IBR payment.
- Graduate is eligible for the program if your federal IBR payment is less than the standard 10 year payment on graduate's loan.
- Most (but not all) federal loans are included .
- Family size is taken into account. IBR calculation decreases the payment amount when graduate provides  $\frac{1}{2}$  or more of a child's financial support.
- If married, the government will
  - combine your incomes if you file jointly, or
  - use only your income if you file separately.

## How Does Federal IBR Work? (cont'd)

- Reapply annually through your loan servicer.
- In some cases, the federal IBR payment does not cover the interest accruing each month, possibly resulting in the total amount of the graduate's loan increasing during repayment (“negative amortization”).
- Conditioned on full-time employment and on-time loan payments by the graduate, the federal government forgives the loan after
  - 10 years in an eligible US-based government, nonprofit, or public interest job (currently a non-taxable event), and
  - 25 years for a private sector job (a taxable event).
- Progress toward 10 year loan forgiveness can be tracked via forms available on the Federal Student Aid website at:

<http://studentaid.ed.gov/repay-loans/forgiveness-cancellation/charts/public-service>



## Step 2: Apply to the MLaw Program

- May graduates apply by November 1.
- December graduates receive a one-time opportunity to apply in May to receive interim coverage until the November 1 application cycle.

<http://www.law.umich.edu/financialaid/Pages/loanrepaymentprograms.aspx>

# Step 3: Reapply to Federal IBR and Michigan Law Program Annually

- Both programs need to re-evaluate your information on an annual basis.
- If you experience a significant change in your income level during the year, contact your IBR loan servicer.
- If you experience any changes in income, employment, loan payments, or family size, contact the MLaw Fin Aid Office.
- Both programs have opportunities for deferrals.

## MLaw Eligibility Requirements

- Enroll in federal IBR.
- Be eligible for IBR using only the federal loans received to attend Michigan Law (except for those ineligible for federal loans due to visa status).
- Hold full-time and paying employment (or future employment contract).
- Hold a job requiring a JD (or otherwise approved on a case-by-case basis).
- Judicial clerkships, Michigan Law-funded fellowships, and other temporary positions are excluded.
- Enter within five years of graduation.
- Participate in the program for no more than ten years, but the years need not be consecutive.

## Step 4: Review Outcomes for Increasing Salary

### Three-Tier System (uses gross income)

#### I. ~\$50,000 or below (GS-11 base)

- Graduate has no out-of-pocket costs toward loan payments.
- MLaw lends graduate the entire federal IBR payment.
- MLaw places an amount equal to the unpaid interest into a reserve fund.

#### II. > ~\$50,000 – ~\$75,000

- Graduate pays increasing share of principal and none of the interest payment.
- MLaw lends graduate the entire interest payment (but  $\leq$  federal IBR payment amount).
- MLaw places a percentage of the unpaid interest (based on income) into a reserve fund.

#### III. > ~\$75,000 – ~\$88,000 (175% of GS-11)

- Graduate contributes entire principal and a percentage of interest payment.
- MLaw lends graduate remainder of interest payment.
- No reserve fund created by MLaw.

#### IV. MLaw forgives the loan at the end of the year it is issued, provided the loan conditions have been met.

## Tier I: ~\$50,000 (GS11) or below

SCENARIO: \$40,000 Gross Income / \$3,333 per month

- Graduate has no out-of-pocket costs.
- MLaw lends graduate the entire federal IBR payment (blue).
- MLaw places unpaid interest in a reserve fund (yellow).

AMOUNT BORROWED (with interest capitalized for calculations)	MONTHLY ACCRUED INTEREST	MONTHLY REQUIRED FEDERAL IBR PAYMENT	MONTHLY UNPAID INTEREST GOING TO RESERVE	MONTHLY PRINCIPAL PAID BY GRADUATE
\$60K	\$374	\$291	\$83	\$0
\$80K	\$520	\$291	\$229	\$0
\$120K	\$814	\$291	\$523	\$0

## Tier II: > ~\$50,000 – ~\$75,000

SCENARIO: \$65,000 Gross Income / \$5,417 per month

- Graduate pays a percentage of the principal on a sliding scale based on income (pink).
- MLaw loans graduate the entire interest payment (but is less than the federal IBR payment amount) (blue).
- MLaw places a percentage of unpaid interest (on a sliding scale based on income) in a reserve fund (yellow).

AMOUNT BORROWED (with interest capitalized for calculations)	MONTHLY ACCRUED INTEREST	MONTHLY REQUIRED FEDERAL IBR PAYMENT	MONTHLY UNPAID INTEREST GOING TO RESERVE	MONTHLY PRINCIPAL PAID BY GRADUATE
\$80K	\$520	\$603	\$0	\$83
\$120K	\$814	\$603	\$175	\$0

## Tier III: > ~\$75,000 – ~\$88,000

SCENARIO: \$80,000 Gross Income / \$6,667 per month

- Graduate pays the principal (pink) and a percentage of the accrued interest on a sliding scale based on income.
- MLaw lends graduate a decreasing portion of the interest as graduate income increases (blue).
- MLaw no longer places unpaid interest in a reserve fund.

AMOUNT BORROWED (with interest capitalized for calculations)	MONTHLY ACCRUED INTEREST		MONTHLY REQUIRED FEDERAL IBR PAYMENT	MONTHLY UNPAID INTEREST GOING TO RESERVE	MONTHLY PRINCIPAL PAID BY GRADUATE
	Paid by UM	Paid by Grad			
<b>\$80K</b>	\$331	\$189	\$791	\$0	\$271
<b>\$120K</b>	\$504	\$287	\$791	\$24	\$0

## Graduate's Out-of-Pocket Costs With \$120,000 Federal IBR Debt

(\$120,000 borrowed with interest capitalized for calculations)

ANNUAL INCOME	ANNUAL OUT-OF-POCKET COSTS	MONTHLY OUT-OF-POCKET COSTS
\$40K	\$0	\$0
\$50K	\$0	\$0
\$65K	\$0	\$0
\$80K	\$3,444	\$287



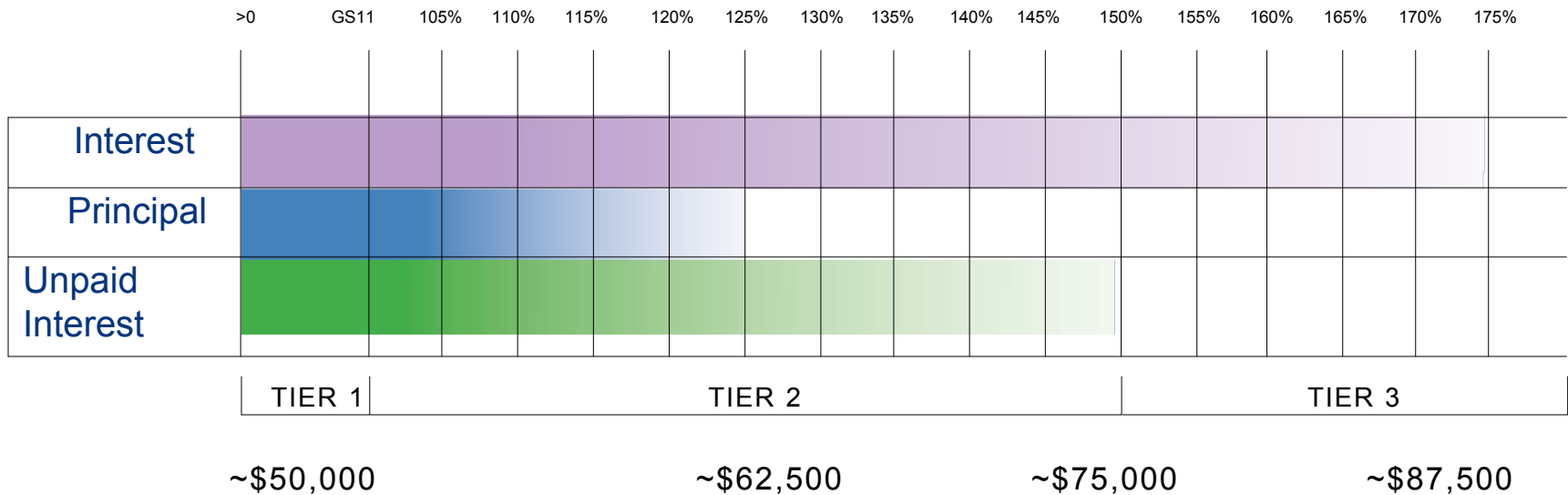
## Federal IBR & MLaw Program Monthly Calculations

Assumes a family size of one and federal debt comprised of only loans to attend MLaw.

Yearly Income (Monthly)	Amount Borrowed	Monthly Accrued Interest	Monthly IBR Payment	Monthly Unpaid Interest	Monthly Principal Payment	Grad Pays	MLaw Pays
\$40,000 (\$3,333)	\$120,000	\$814	\$291	\$523	\$0	\$0	\$291 (+ \$523 reserve)
\$50,000 (\$4,167)	\$120,000	\$814	\$416	\$398	\$0	\$0	\$416 (+ \$398 reserve)
\$65,000 (\$5,417)	\$120,000	\$814	\$603	\$211	\$0	\$0	\$603 (+ \$175 reserve)
\$80,000 (\$6,667)	\$120,000	\$814	\$791	\$23	\$0	\$287	\$504 (no reserve)

## How Much Is Covered?

Solid color represents full coverage, while lighter gradations represent portions of full coverage; salary range noted below chart.



## MLaw's Debt Wizard: A Tool for You

- You can use MLaw's Debt Wizard now to learn more:

<http://www.law.umich.edu/financialaid/debtwizard/Pages/Debt-Wizard-Calculator.aspx>

- The Debt Wizard is a robust model visualizing the many possibilities available after law school in terms of income, debt, location (taxes & housing costs), job type, and payment plan.

## Debt Wiz Calculator

Please select one value from each drop-down box to obtain a chart displaying payment options across a range of incomes.

- Prospective & Current Students and New Graduates \*
- Graduates in Repayment \*\*

Add Custom Inputs

Post-Grad Employment:    
 Federal Loan Law School Debt:    
 Metro Area:

Custom Income \$K:    
 Custom Debt \$K:    
 Custom housing \$:

### Prospective & Current Students and New Graduates \*

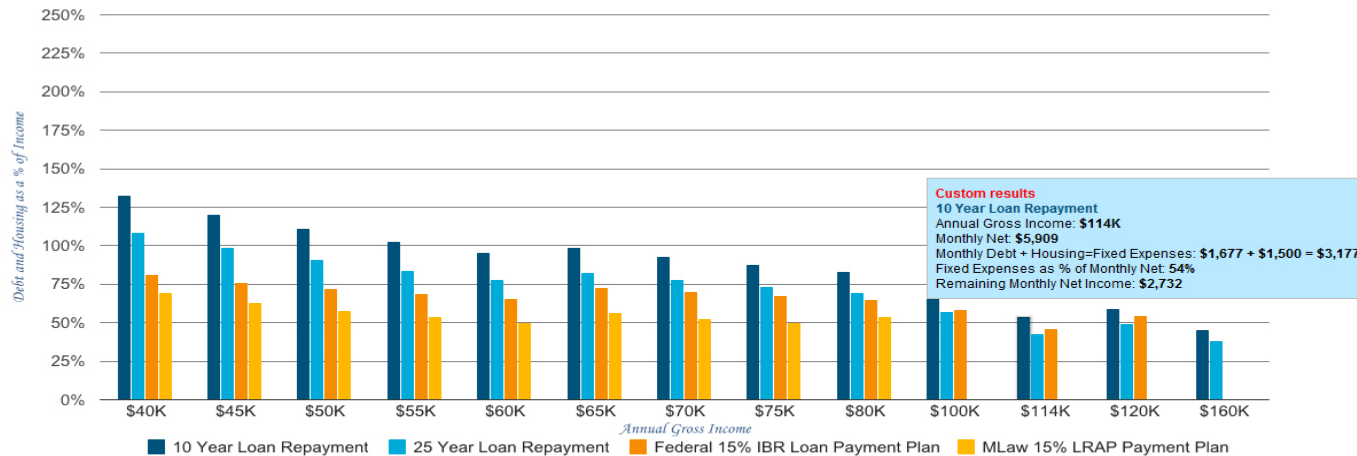
#### Inputs

Post-Grad Employment: *Private Practice*   
 Federal Loan Law School Debt: *\$120,000*   
 Metro Area: *Los Angeles*

#### Custom Inputs

Custom Income: *\$114K*   
 Custom Debt: *\$128K*   
 Custom Housing: *\$1500*

*Remember! The magic begins by rolling your cursor over the bar graphs.*



We also provide a summary of recent [NALP data](#) that describe first year job salaries in five areas of post-graduate employment. The NALP data shows that certain (higher) salaries are unobtainable in certain fields, and this is indicated in the chart by grayed out the relevant bars.

## Resources and More Information

- MLaw Financial Aid/LRAP:  
[www.law.umich.edu/financialaid/Pages/loanrepaymentprograms.aspx](http://www.law.umich.edu/financialaid/Pages/loanrepaymentprograms.aspx)
- MLAW Debt Management FAQ:  
<http://www.law.umich.edu/financialaid/FAQ/Pages/loanrepayment.aspx>
- LRAP Compare (How to review a law school LRAP program):  
<http://www.law.umich.edu/financialaid/Pages/LRAP-Compare.aspx>
- FinAid calculators:  
[www.finaid.org/calculators](http://www.finaid.org/calculators)
- Federal Student Aid:  
[www.studentaid.ed.gov](http://www.studentaid.ed.gov)

## Contact Us

- Our MLaw Fin Aid staff love to talk about federal IBR & LRAP & more with you!
- Get in touch with us by phone (734.764-5289) or email ([lawfinaid@umich.edu](mailto:lawfinaid@umich.edu)) or visit our Contact Us page.