



Managing Your Law School Debt

**Presentation to Berkeley School of Law
10/19/2009**

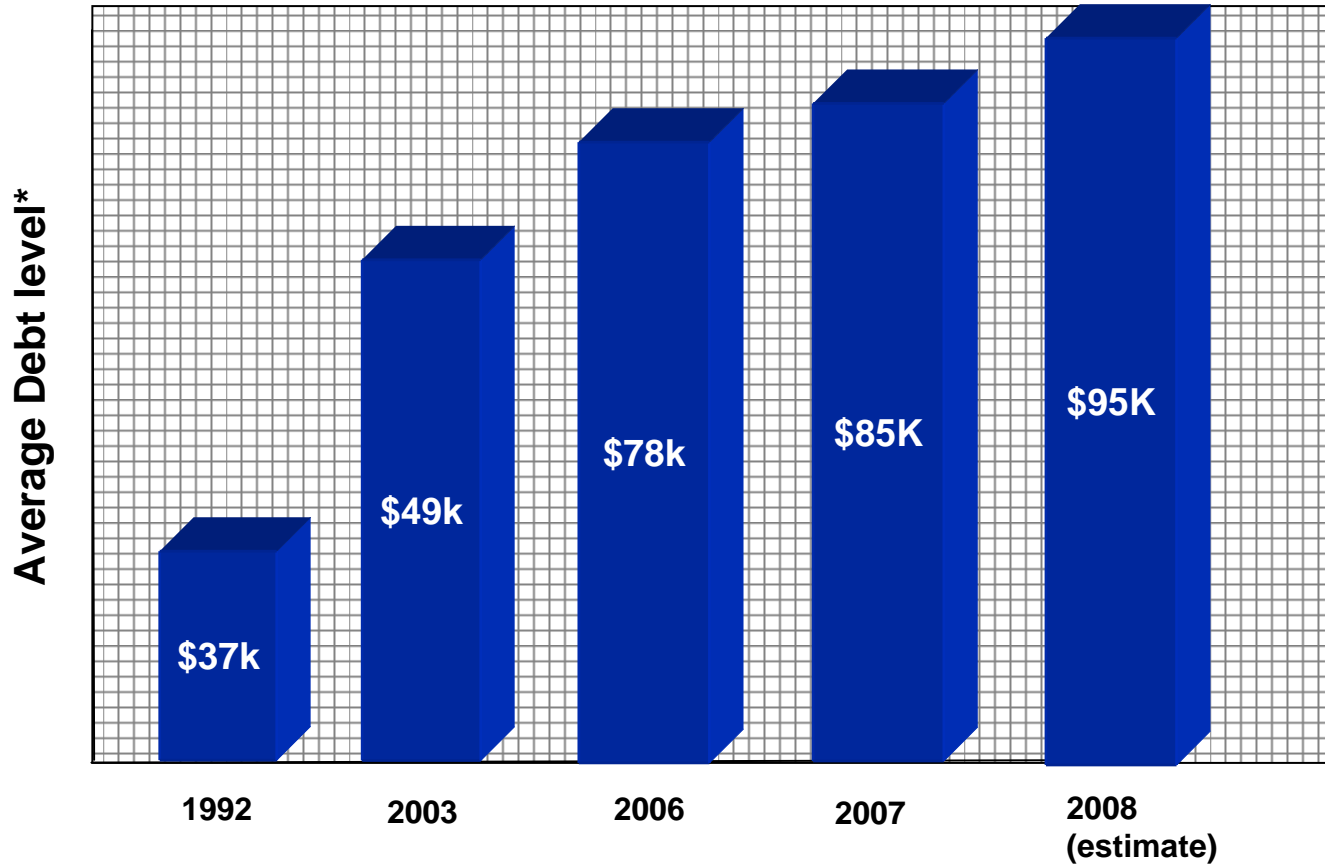
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A Division of Graduate Leverage

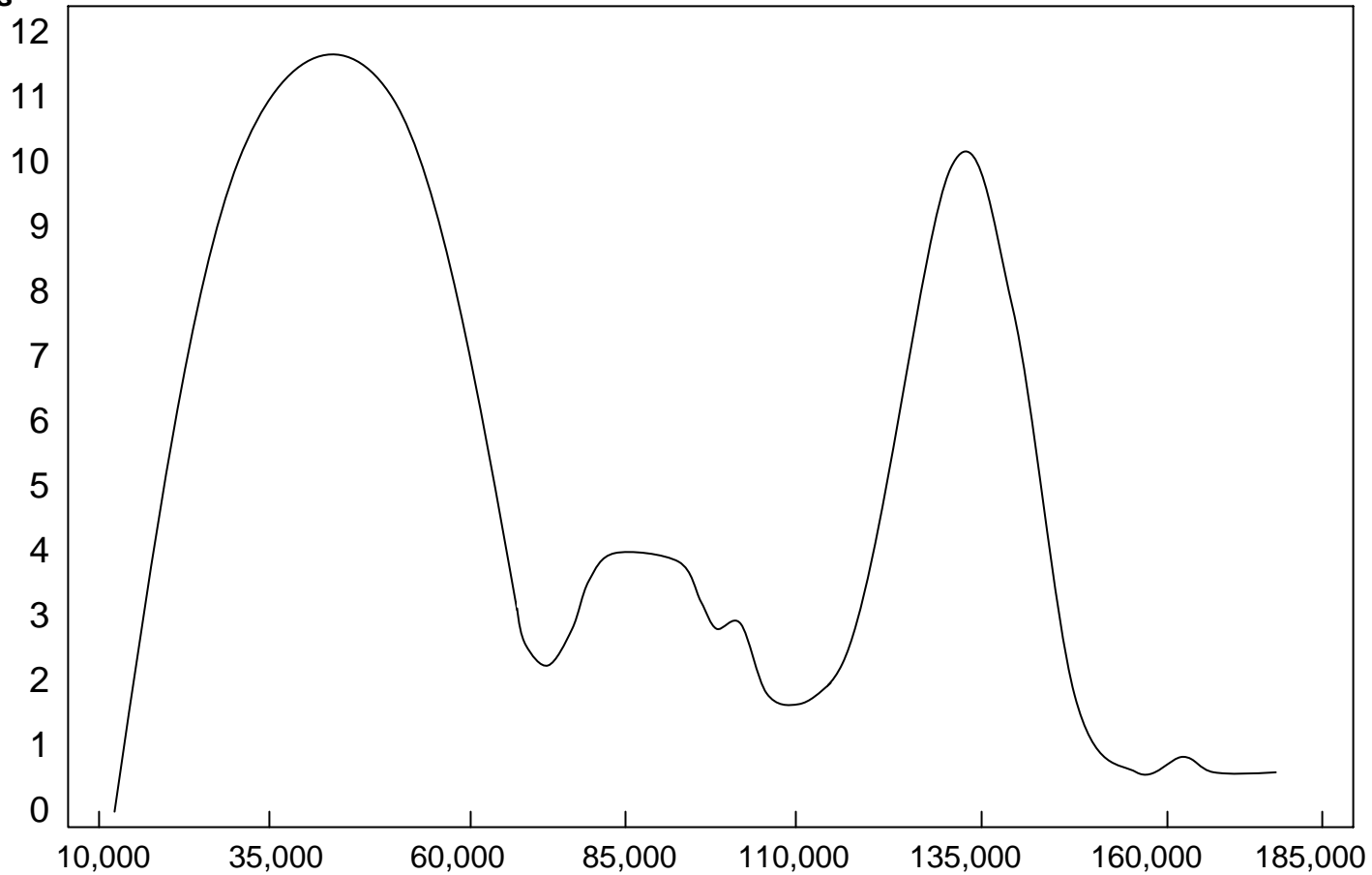


Average Law Student Debt



*Source: The American Bar Association

% of salaries



Annual Salary

*Source: National Association of Law Placement 2006 www.anlp.org

Note: The graph is based on 22,656 salaries. A few salaries above \$200,000 are excluded for clarity. The first peak in this graph reflects salaries of both \$40,000 and \$50,000 (each about 11% of reported salaries). The second peak reflects salaries of \$135,000 (10% of reported salaries).

Debt Management Strategies Will Vary...

Recent Market and Regulatory Changes

The Good:

- Extremely Low Interest Rates
- Income-Based Repayment (IBR) plan includes 3 yrs of subsidies (July 1, 2009)
- Public Service Loan Forgiveness Program

The Bad:

- Fixed Rate Stafford Loans do not benefit from Federal Consolidation
- Economic Hardship qualification more difficult (July 1, 2009)
- Bar Study loans are more difficult to obtain and more expensive

Debt Management Strategies More Complex

Use Federal Loans: (Stafford, Grad PLUS)

- **Federal Stafford: Fixed Rate 6.8% (since July 1st 2006)**
 - **Subsidized: government pays interest during school**
 - **Unsubsidized: all interest accrues (1st year's Unsub: \$12k = ~\$2,500 additional interest at repayment)**
- **Graduate PLUS Loan : Fixed Rate 7.9% DL (all interest accrues)**

Use Private Loans Only When Required:

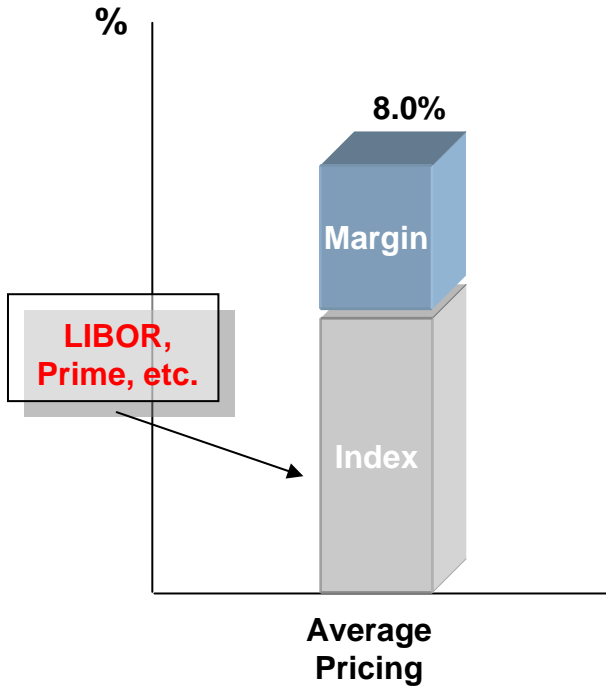
Sometimes needed for Bar Study or if Federal is not available:

- **Rates have increased dramatically**
- **Minimum credit requirements have tightened**

(For Illustrative Purposes – assumptions based on filings of sample lenders)

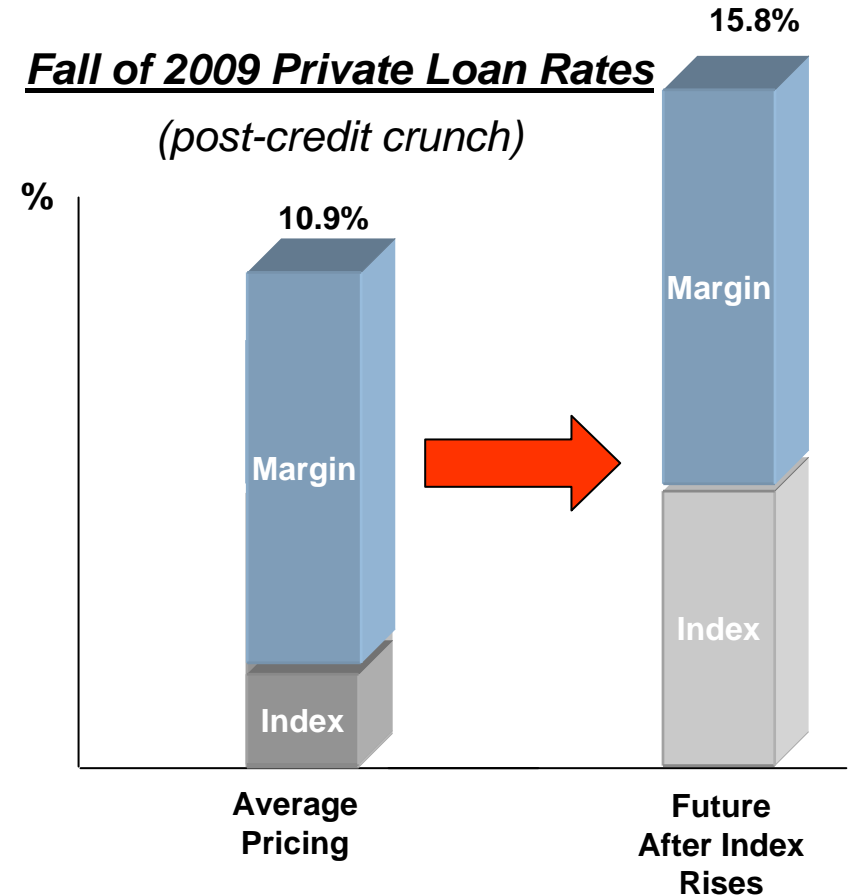
Private Loan Rates 2007/08

(pre-credit crunch)



Fall of 2009 Private Loan Rates

(post-credit crunch)



If You Have a Private Loan...Make Sure You Know the Rate

Why should I consolidate?

Maybe ? Lock in rate

New Stafford Loans are already fixed. **Only** if you still have variable rate loans.
(Loans from Undergrad?)

NO ~~Lower Monthly Payments~~

Extended Payment Plans (25 yrs) available if you have over \$30,000 in total debt.

Maybe ? Administrative Simplicity or Loan Forgiveness

If you have multiple lenders this could still be valuable but no monetary savings.
Public Service Loan Forgiveness program requires Direct Loan payments

NO ~~Superior Benefits~~

Due to recent regulatory changes, it is doubtful benefits on consolidation loans will be superior to those associated with the underlying loans.

Consolidation no longer a “no-brainer”

Repayment Strategies

Postpone Payments:

- **Economic Hardship Deferment (EHD)**
 - Based solely on income, amount of debt no longer a factor
 - No payments, and **government pays interest** on subsidized loans **(\$1,734)***
- **Forbearance**
 - No subsidy savings
 - Typically 5 to 7 year limit – at lender’s discretion

Significantly Reduce Payments:

- **Income Based Repayment Plan (IBR)** - New program Effective 7/1/2009
 - Must qualify each year
 - Limits payment to 15% of discretionary income
 - Subsidized interest not covered by reduced payment is **paid by government**
 - Subsidy limited to 3 years **(~\$1,000)***
 - After 25 years remaining debt forgiven remains a taxable event
- **Extended Repayment Plans**

*Based on \$25,500 Subsidized Stafford at 6.8%; IBR varies by payment

Overview of Qualification:

Make 120 qualifying monthly payments on an eligible [Federal Direct Loan](#) while employed in a public service job as defined by the program (federal, state, defense and prosecution, non-profit entities)

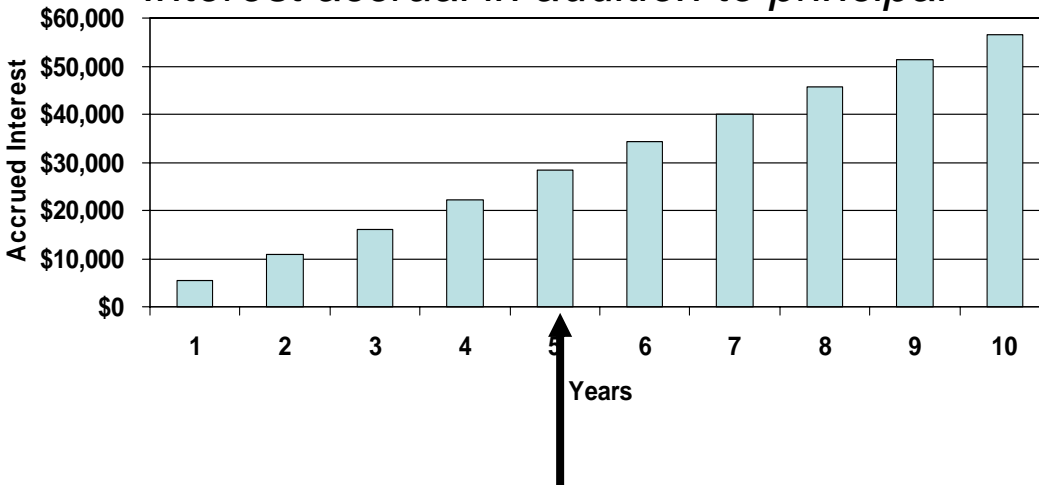
Income Based Repayment must be used to minimize payments and maximize forgiveness

You should always explore LRAP's, School-based, State-based, and employer-based programs. Details available from your Financial Aid Office

Student Loan Debt **\$122,500 (\$92,500 Stafford, \$30k Grad PLUS)**
Weighted Rate: **7.22%**

	<u>YEAR 1</u>	<u>YEAR 10</u>
AGI:*	\$37,000 (42k salary)	\$52,192
Monthly Payment:	\$1,436	\$1,436
Monthly Payment (IBR):	\$189	\$289

Interest accrual in addition to principal



Total Payments: **\$28,381**
Amount Forgiven: **\$179,124**

What if I leave Public Service After 5 years to make \$75k per year???

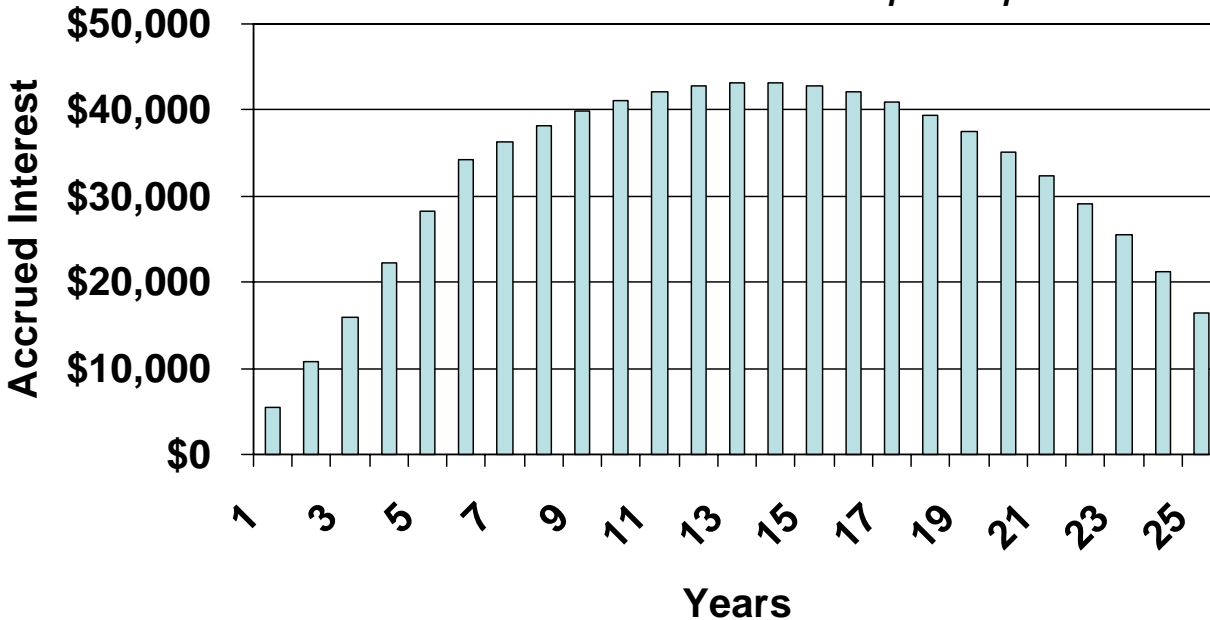


*Equal Justice Works Median Salary, 2008

Student Loan Debt **\$122,500 (\$92,500 Stafford, \$30k Grad PLUS)**
Weighted Rate: **7.22%**

	YEAR 1	YEAR 10
AGI:*	\$37,000	\$77,610
Monthly Payment (IBR):	\$189	\$628

Interest accrual in addition to principal



Total Payments:
\$201,126

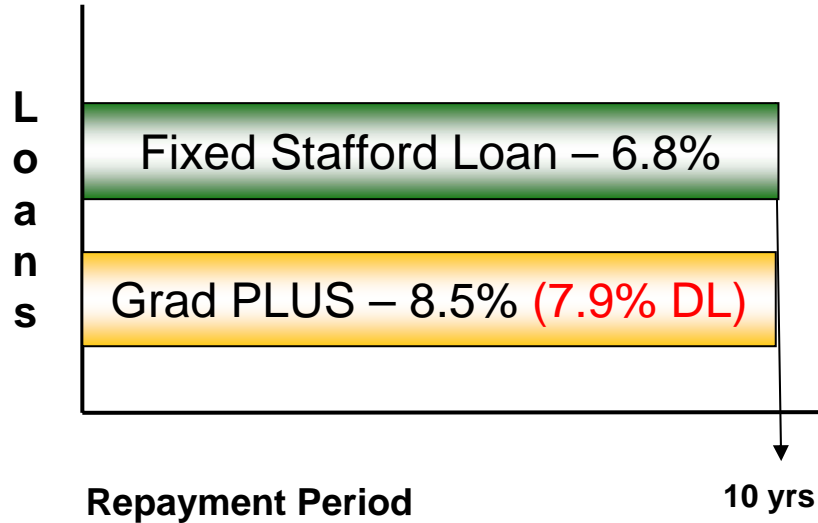
Amount Forgiven:
\$138,980*

Principal still remains untouched



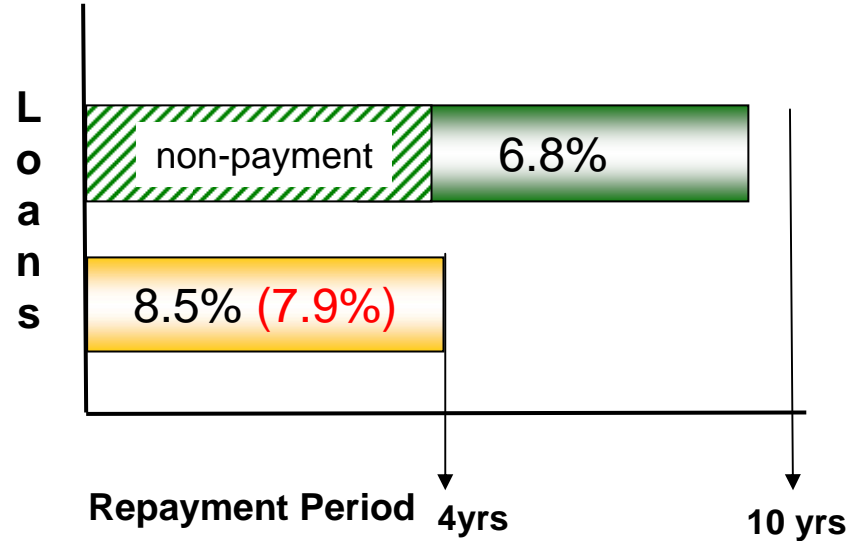
**Tax Treatment*

Standard Repayment Plan



Effective Rate (APR) = 7.89%

Targeted Repayment Plan



Effective Rate (APR) = 6.87%



*Savings achieved by prepaying higher rate loans.
This example uses 8.5% for Grad PLUS

Same Debt Assumption: \$122,500 of debt @ 7.22%

	<u>Monthly Payments</u>	<u>Term</u>	<u>Total Paid</u>
Lawyer A Public Service: (IBR/PSLF)	\$189 - \$289	10yrs	\$28,381
Lawyer B IBR:	\$189 - \$1,131	25yrs	\$201,126
Lawyer C (Starting Salary \$105k)*:	\$1,436	10yrs	\$172,322
Lawyer D (Starting Salary \$70k)*:	\$882	25yrs	\$264,834

*Debt payment as % of income does not exceed 20%

**Debt Level, Career, Salary, Family Size & Liquidity Needs
affect which approach
will provide the greatest economic benefit**

✓ **During School:**

- Borrow only what you need
- Evaluate your situation each year
- Use Federal Loans

✓ **Bar Study Loans:**

- Borrow only what you need
- Utilize Grad PLUS if available possible
- Co-signer may improve rate
- Payoff quickly

✓ **Consolidation:**

- Federal Consolidation - Variable Rate Loans or for Public Service (DL)
- Private Loan Consolidation –Wait for credit market to improve

✓ **Payment Relief:**

- Maximize government subsidies when relief is needed

✓ **Loan forgiveness programs:**

- Utilize when possible, evaluate strategy annually
- Evaluate all programs: LRAP

✓ **Repayment:**

- Focus on paying off highest rate debt
- Utilize non-payment options on lower rate debt



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If you have any questions or would like a personalized debt assessment, please feel free to call or visit our website.

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