



Northeastern University

School of Law

2010 LOAN DEFERRAL/FORGIVENESS PROGRAM GUIDELINES

Round One Deadline: October 31, 2009

Round Two Deadline: May 31, 2010

Northeastern University School of Law ("NUSL") has a longstanding commitment to encouraging its graduates to pursue law careers in the public interest. As such, NUSL has created the Fund for the Public Interest - Loan Deferral/Forgiveness (LD/F) Program (the "Program"). The Program is designed to reduce the debt burdens of graduating law students who choose to accept low-paying, public interest jobs.

NUSL may contribute toward the repayment of a Graduate's educational loan for each year the Graduate is selected for participation in the Program. Awards issued to Program participants will be **in the form of an interest free loan**. A participating Graduate agrees to repay Program loans on a deferred basis. Participants who remain eligible after the second year may have program loans forgiven in a variety of ways.

NUSL encourages public interest graduates to take advantage of the provisions of the 2008 College Cost Reduction and Access Act ("CCRAA") which provides for income based repayment beginning July, 2009 and for full public service loan forgiveness on federal student loan debt after ten years of qualifying payments and eligible employment. Regulations are still forthcoming, but qualifying payments made after 10/1/07 will count toward the ten years. We are encouraging public interest graduates to take steps to consolidate federal loans into the Direct Loan Program now since this is a baseline requirement for loan forgiveness. Information on requirements for these programs can be found at <http://www.finaid.org/loans/publicservice.phtml>

I. LD/F Program Definitions

- 1) "Graduates" mean individuals who have earned a J.D. from NUSL starting with the class of 1987.
- 2) "Qualified Indebtedness" means indebtedness incurred by an individual in connection with obtaining a B.A. or B.S. (Undergraduate degree), while she/he was a candidate for a J.D. and/or in connection with taking the bar exam.

Qualified Indebtedness is further limited to amounts under:

- (i) Student loan programs sponsored or guaranteed by governmental entities & agencies;
- (ii) Student loan programs sponsored or guaranteed by Northeastern University including but not limited to Access Group Loans, LawLoans, and MEFA;
- (iii) Student loan programs sponsored or guaranteed by undergraduate institutions; or
- (iv) Bar Examination Loans up to \$15,000.

Qualified Indebtedness described in (i) - (iii) above shall not include loans from family members or any other loans not included as part of the financial aid award package of the individual's law school or undergraduate institutions. Spouse's or partner's student loan debt will also not be considered in award calculations.

- 3) "Full-time" means the individual is working or being paid for 35 or more hours per week. Such individuals on either paid or unpaid maternity leave, parenting leave, or care leave of a partner or parent with a serious health condition are considered "Full-time" employees up to a maximum period of six months.
- 4) "Part-time" means the individual is working or being paid for less than 35, but at least 20 hours per week.
 - a. Program participation shall be limited to one Program year for Graduates working "Part-Time" due to a paid or unpaid maternity leave, parenting leave, or care leave of a partner or parent with a serious health condition
 - b. Graduates working "Part-Time" because they have not yet been able to secure full-time employment will be allowed to participate in the Program for one year as a "Part-Time" employee, but such participation under such status will be limited to one full program year and for a year period starting with the date of an applicant's graduation.
- 5) "Law-related" means that the nature of the work involves legal problem solving or analysis, and necessarily requires skills acquired in legal education.
- 6) "Public Interest" is considered to be employment with legal services offices, public defenders, government agencies, advocacy groups, unions, and some private firms on a very limited basis.¹
- 7) "Salary" means the annual amount a graduate earns while engaged in Law-related Public Interest work as defined above in (I) (6). It also includes any cost of living increase a graduate receives during the Program year.
- 8) "Income" means Salary plus gross income for federal income tax purposes from any other source, adjusted as described below in Section II, III or IV (B).
- 9) "Adjusted Net Income" (ANI) means a Graduate's Income reduced by his/her annual Program eligible loan obligations or child dependent credit. If a Graduate receives employer or other loan relief repayment assistance, the total amount of Program eligible loan obligations may be reduced by the amount of that assistance.
- 10) "Program Cap" is set annually. It was \$40,000 for 2009 program year.
- 11) "Award" means loan. No annual award can exceed an applicant's Program qualifying annual debt obligations.
- 12) Applicants who are in default on a student loan are not eligible to participate in the LD/F program.

II. Eligibility

Those persons eligible for Program awards must be eligible graduates of NUSL with Qualified Indebtedness, engaged in Full-time or Part-time, Law-related Public Interest work within the Program Guidelines. In order for a Graduate to be eligible for Program Awards, his/her annual Adjusted Net Income (ANI) cannot equal or exceed the Program Cap.

No applicant shall be eligible for LD/F Program assistance unless he/she qualifies for a minimum \$500 award.

The political or ideological view of the employer is not a factor in determining whether a Graduate is employed in Public Interest work. However, Graduates will not be funded to work for employers who discriminate on the basis of race, sex, religion, sexual preference, age, national origin or handicap or veteran status. Judicial clerkships are excluded from the definition of "Public Interest" if they are for a fixed term of two (2) years or

¹ For qualifying private firm work, please also see Section II (2), Eligibility, p. 3.

less. However, if a Graduate takes a Public Interest job after a judicial clerkship and is subsequently accepted into the Program, the year(s) spent in the clerkship count toward total years in the Program for loan forgiveness purposes; provided, the Graduate's Salary and Income during the clerkship year(s) fall within the Program's income guidelines.

Each year the Graduate must reapply for acceptance into the Program (See Application Procedure, Section VIII). The Graduate may receive awards under the Program for a maximum of 10 years. If the Graduate's ANI exceeds or is equal to the Income Threshold or the Graduate fails to meet the Program's other eligibility guidelines, the Graduate is no longer eligible for the Program and must comply with any applicable loan repayment provisions.

1) Loan Forgiveness

The Loan Forgiveness schedule is as follows:

<u>Full Years Since Entry into Program</u>	<u>Percentage of Loan Forgiven</u>
1	0
2	50 %
3	100 %

If a Graduate enters the Program and remains eligible for two full years, he/she becomes eligible for loan forgiveness. After two full years of participation, 50% of the loans received in Year 1 (and Year 2, if applicable) will be forgiven. If a graduate remains in the program for a full three years, any loans received in Years 1 and 2 will be forgiven at 100%.

Graduates who remain eligible for a program loan award in years three (3) through ten (10) are eligible to have these additional loan awards forgiven in whole (100%) one year following the issuance of such a loan if the recipient completes the year in a qualifying job.

A Graduate who has previously received a Program Award and who continues to work in a Program qualifying job may be eligible for the forgiveness provisions of the Program even if he/she is no longer eligible for additional Program awards. Under the forgiveness provisions of the Program, a Graduate who received a Program Award for one or two years in the Program, but who is ineligible for additional Program awards is still eligible for forgiveness if she/he remains employed in a program qualifying public interest job.

2) Private Firms

A Graduate working for a private firm may be eligible for loan deferral/forgiveness assistance where 75% of the Graduate's time is spent in public interest work. Public interest work may include civil rights cases or the representation of Low Income Clients and/or non-profit organizations, which predominantly represent or serve "Low-Income Clients". Low Income as used herein means income that shall not exceed 200% of July 2008 federal poverty guidelines applicable to that individual.

In order to evaluate applications from Graduates working for private firms, we will require applicants to provide the following documentation in addition to the documentation already required of all other applicants (See Program Guidelines, Part IX, Application Procedure):

- (a) Sworn statement of applicant describing the specific nature and extent of the public interest work he/she will perform during the Program Year.
- (b) Sworn statement of the applicant's employer that conditions described by the applicant in his/her sworn statement is an accurate reflection of the nature of the applicant's responsibilities.

3) **Net Worth**

Applicants must have liquid asset limits of less than \$12,001 to be eligible. If applicants have a spouse or partner, the liquid asset limit is \$25,000.

4) **Program Eligible Debt**

In reporting their 2010 Monthly Repayment Obligations in Question 9(b)(1), applicants must report their most recent and actual program eligible monthly debt obligations they have. Private loan program eligible debt will be calculated using this information.

Federal Loan Consolidation:

Applicants are encouraged to consolidate their federal loans into the Federal Direct Consolidation Loan Program. Instructions for consolidation can be found at www.loanconsolidation.ed.gov. Although applicants are under no obligation to consolidate or to select any specific repayment plan, program administrators will use Income Based Repayment Plan (IBR) monthly payments in calculating an applicant's eligible federal loan repayment obligations.

Exceptions to using the IBR monthly payment amounts in calculating awards may be made for those in employment eligible for NUSL Program assistance but not for forgiveness under the federal CCRAA. These type of LDF but not CCRAA eligible employers may include but are not limited to unions and private firms doing public interest work. In this case, the standard 15-year repayment amount may be used to calculate program eligible federal debt.

Total Program Eligible Debt for 2009 will be the total of federal and non-federal loan payments as described in this section.

5) **Certification & Reporting**

All award recipients will be required as a condition of continued eligibility to periodically confirm in writing their employment, salary, and monthly loan obligations as set forth in their most recent application and that they remain unchanged.

In addition to complying with the above-mentioned certification requirements, all award recipients as a condition of continued eligibility are responsible for notifying the Program Administrator within two weeks of any changes which may affect eligibility and/or the amount of the award issued.

III. Program Awards.

Type of Award: The NUSL Program Awards for a Graduate are in the form of an interest free loan paid directly to the Graduate (the "Program Loan"). An eligible Graduate who is selected for an Award enters into a loan agreement with NUSL for all awards.

Amount of Award: Award amounts are calculated based on a formula that takes into account each applicant's income as it relates to program eligible debt. In the last award cycle, awards ranged from \$900 to \$12,000. Program awards are contingent on the availability of NUSL resources and are allocated within a constrained budget. Most awarding is done in the first application cycle, although some percentage (usually 10 percent) of the budget is held aside for the second award cycle in May.

Award Cap: NUSL determines an award cap in each award round to ensure that no individual receives a disproportionate award. The award cap is determined by the Program Administrators.

Forbearance: If graduates who were previous LD/F Program award recipients obtain "forbearance status" on their program qualifying loans, on which their previous award was based, they shall be required to show that any significant increase in loan obligations in subsequent years is not the result of their loans being placed in forbearance. Absent such a showing, the Program administrator shall use the original monthly loan repayment obligations as the basis for calculating future awards.

IV. Adjustments to Income

The following adjustments will be made when calculating Income of a Graduate:

- 1) Graduate's Income shall be reduced by \$5,000 for a Graduate's first dependent and \$4,300 for a Graduate's second dependent as reported for federal income tax purposes.
- 2) The Graduate's Income shall equal the greater of (i) the Graduate's Income (as adjusted) or (ii) one-half the sum of the Graduate's Income (as adjusted) and the gross income for federal income tax purposes of the Graduate's spouse or the non-married individual who shares income with the Graduate.
- 3) The Graduate's Program Qualifying Debt shall be reduced by any amount of loan relief repayment assistance which the Graduate applicant receives during the Program Year except to the extent the entitlement to the employer/fellowship benefit requires the applicant to apply first to the LD/F program.

V. Involuntary Termination

A Graduate who becomes a participant in the Program for any Program year and whose employment is involuntarily terminated (other than by reason of gross misconduct or criminal activity) during such year will be entitled to continue his/her Program participation until the earliest of (A) 90 days after the involuntary termination, (B) the day on which the Graduate begins employment which makes him/her ineligible for Program participation, or (C) the day on which the Graduate becomes ineligible for Program participation for any other reason.

Any Program participant whose employment is involuntarily terminated and who wishes to continue Program participation beyond the date of such termination must submit a letter from his/her former employer verifying that his/her employment was involuntarily terminated other than by reason of gross misconduct or criminal activity and the date of such termination.

VI. Loan Repayment

If a Program participant remains in a program qualifying public interest job, but is ineligible for any additional program awards, that graduate remains eligible for the forgiveness provision of the program. If that Program participant is eligible for forgiveness benefits, she/he will not be required to begin Program loan repayments until she/he is no longer eligible for Program forgiveness benefits or unless he/she has failed to comply with other Program requirements. (See Section II, part 1).

If the Graduate leaves program eligible employment, the Graduate becomes obligated to repay the Program Loan he/she has received to the extent such Program Loan has not been forgiven. The repayment period for the Program Loan begins on the first day of the calendar quarter after the Graduate is determined to be ineligible for the Program. Repayment is made in quarterly payments over a ten-year period. However, there

is a minimum \$50 per quarter amount that must be repaid. As such, the repayment period may be less than ten years.

VII. Obligations of Program Participants

Graduates are responsible for notifying the Program administrators of any change in their income, job status, or monthly Program qualifying loan obligations at any time during the Program year. Additionally, all program participants must continue making all student loan repayments and complying with all processing requirements imposed by lenders and collection entities. LD/F awards are made based upon an applicant's statement of anticipated repayments for the coming year. Failure to meet those repayments may disqualify an applicant from applying in future years. Failure to remain in good standing with any of these entities by not meeting repayment obligations may result in termination of eligibility for the Program.

In the event that a Program participant's ANI increases any time during the Program year, the award may be recalculated at the discretion of the Program Administrator to reflect the pro-rated value of the increase. An award adjustment may be made in one of the following ways:

- 1) If a graduate applies to the Program for the year following the income increase and is deemed eligible, the Award for that year may be decreased by the amount of award overpayment in the Program year during which the ANI increase occurred.
- 2) If the Program participant applies to the Program for the year following the ANI increase, but is deemed ineligible for subsequent Program assistance, the amount of award overpayment may be added to the existing principal balance and a new payment schedule will be issued.
- 3) During the Program year, when the ANI increase occurs, the Program participant may elect to make one lump sum repayment to the Program for the total amount of the award overpayment or work out other arrangements with the Program Administrator.

VIII. Tax Implications of Forgiven Loans

We have been advised by the University Counsel's Office that recent federal legislation excludes from income any loan forgiven, in whole or in part, if the recipient is working for a qualifying governmental unit or 501 c (3) organization, which is also exempt from taxes under section 501 (a) of the IRS. Our loan repayment assistance program is structured so that graduates receive interest free loans to assist with their original student loan repayments.

Revenue Ruling 2008-34, issued by the IRS on June 20, 2008 makes clear that law school loan repayment assistance programs can qualify for tax-free loan forgiveness. In general, forgiveness of debt results in taxable income under the Internal Revenue Code. The tax laws, however, include a special provision, section 108(f), that makes such forgiveness tax-free in the case of student loans made to encourage graduates who work in "certain professions" to engage in public service. The ruling describes a program in which a law school makes loans to refinance its graduates' original student loans under a program for its graduates who work in a law-related public service position for, or under the direction of, a tax-exempt charitable organization or a government unit. Under the terms of the law schools loans, the indebtedness will be forgiven if the students work for a certain minimum period of time in a qualifying law-related public service position. The ruling concludes that such loans qualify as student loans that can be forgiven on a tax-free basis under the special provision in the Internal Revenue Code.

Please note that although Program loan awards issued to Graduates for their work with private firms doing public interest work or with unions are eligible to be forgiven under our Program in the same manner as other program

participants, such Program awards forgiven, in whole or in part, for such work constitute income under IRS Code Regulation 1.61-12 and will be taxable as such.

IX. Application Procedure

There are two application periods for the 2010 Program Year.

The first application deadline is October 31, 2009. Decisions on first round applications are expected to be made by December 2008. The Program year runs from January 1, 2010 through December 31, 2010.

The second application deadline is May 31, 2010. Decisions on these applications are expected to be made by July 1, 2009.

Having two application periods will allow those graduates who have not secured employment by the first program deadline the opportunity to receive some assistance without having to wait until the following program year. The second application period will be open to those graduates who have obtained employment after October 31st (first application deadline). Please note that if you are close to securing employment by October 31st, you can still submit an application for the first round. Those graduates who have a job by the end of October, but did not meet the first application deadline may be considered during the second application period. However, priority will be given to those second round applicants who obtained qualifying employment after October 31st.

No graduate who applies during the second period will receive a proportional award greater than those who applied during the first round. Award checks will be issued in January for the graduates in the first round and in July for those in the second application round. If any of the set aside money is not utilized in the second round, it will be added to the program budget for the following year.

APPLICATIONS POSTMARKED AFTER THE APPLICABLE DEADLINES WILL NOT BE CONSIDERED. WE WILL NO LONGER ACCEPT FAXED APPLICATIONS.

Applications must be accompanied by the following documentation:

- 1) Individual or joint 2009 federal income tax return(s) of the applicant and of the applicant's spouse or non-married individual who shares income with the applicant (2010 federal income tax return(s) for round 2;
- 2) Statement of explanation, if return differs by ten percent or more from previous year, for a continuing applicant;
- 3) Net worth as of October 1, 2009 for round 1 May 1, 2010 for round 2;
- 4) Copies of current primary loan statements and payment schedules from all law school and undergraduate loan sources (print outs from on-line sources are acceptable);
- 5) Confirmation of Employment and Salary for applicant and partner;
- 6) Statement describing nature of employment.
- 7) A copy of a birth or adoption certificate if an applicant seeks a dependent adjustment to income under the Program and such child was born/adopted after the applicant filed his/her 2007 federal income tax forms.

When selecting award recipients from a group of eligible applicants, Program administrators may take into consideration, but are not limited to, the following factors:

- 1) Net worth;
- 2) Length of service at employment;
- 3) Nature of employment; and
- 4) Amount of debt.

This is only a summary of Program guidelines. Such information is not intended to be and should not be relied upon as a statement of contractual undertakings by NUSL or the Fund for the Public Interest which reserve the right to reevaluate the criteria for eligibility or the amount of funding available under the Program.

For more information, please contact Mary Church at m.church@neu.edu.