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How Much Debt Will Georgetown Law Grads Have Forgiven?

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In a blog post published on *Higher Ed Watch* today, we include an estimate for the average amount of debt that a participant in Georgetown Law's Loan Repayment Assistance Program (LRAP) will have forgiven by the federal government under Income-Based Repayment (IBR). The amount is a shocking $158,888.

Below is an explanation of how we arrived at that figure and why it represents the lower bound of what the actual figure is likely to be. For a general explanation of how high-debt borrowers under IBR can have large amounts of debt forgiven by the federal government, even if they earn a high income, see our policy paper from 2012.

Debt at Graduation

According to *U.S. News and World Report*, the average indebtedness of 2012 graduates who incurred law school debt at Georgetown is $146,169. We round that to $146,000 and assume that $65,000 is Stafford loans and $81,000 is Grad PLUS loans. The weighted average interest rate on the loan is therefore 7.5 percent. We assume that figure *includes* any federal loans the student has from undergraduate studies, which qualify for Income-Based Repayment, although the figure most likely does not include such loans. If it did, it would be higher. We also assume that figure includes origination fees and interest that accrued on the loans while the borrower was enrolled in school. It likely does not and our figure is thus lower than what the actual average really is, which understates the amount of debt the borrower would have forgiven.

Borrower's 10-Year Income

Georgetown Law reports that the average LRAP participant earns an annual income of $63,145. That is the average participant, who may be in any given year of repayment; it is not a starting salary. We assume the starting salary is $60,000, close to the average for all participants, though the average starting salary is likely lower. That assumption understates the amount of loan forgiveness that is likely.

We then assume an average annual salary increase of 7 percent such that in year five of repayment the borrower earns $78,648, and in year 10 the borrower earns a salary of $110,308, at which point he receives loan forgiveness. However, our calculation assumes loan payments are calculated on less than those figures (about 10 percent less) because Income-Based Repayment uses Adjusted Gross Income, not nominal salary to calculate payments, and AGI is generally about 90 percent of an individual's nominal salary due to pre-tax fringe benefit payments, above the line deductions and credits, etc. Because Georgetown is the one making the borrower's monthly payments, the school coaches LRAP participants on how to reduce their AGI's relative to their total incomes and take other steps to minimize their monthly payments. These include filing a separate income tax return from your spouse, diverting salary raises to pre-tax retirement plans to reduce AGI, and taking care not to update the loan program with salary increases any sooner than is necessary.

We also crosschecked the income profile estimated above with U.S. Census Bureau data on age-based earnings for practicing lawyers. Earnings at the 50th percentile for practicing lawyers based on age conform closely with the income estimate outlined above.

Other Assumptions

We assume borrowers begin repaying their loans based on their current salary. Borrowers who use the federal Income-Based Repayment program actually make payments based on their most recently filed income tax form 1040. Thus, payment amounts lag a borrower's income by about a year, or in some cases longer, depending on what month of the year they begin repaying. This also allows law school students who earned little income their last year in school to make very low or no payments on their loans for the entire first year of payment, or longer—payments for the first year are based on their prior year income. (Georgetown Law advises students not to update their income information immediately when their salary increases to take advantage of this effect.) Because our estimate assumes immediate payment based on current income, we exclude the lagged earnings effect and therefore likely overstate the borrower's actual payments and understate the amount of loan forgiveness.

We assume the borrower is not married and does not have children during the entire 10-year repayment term. Income-Based Repayment allows borrowers to exempt income from their payment calculation based on household size. Household size includes the borrower's spouse and any children for whom the borrower provides more than 50 percent support. In our calculation we assume a household size of one for the entire repayment. Therefore, our estimate like overstates the borrower's actual payments and understates the amount of debt forgiven.

We assume LRAP participants borrow no more than the average student who borrows to attend Georgetown Law. We do not assume that the borrower takes out more than the average even though he would have a strong incentive to do so knowing that he would have to make minimal to no payments on whatever amount he borrows.

We assume that the average LRAP participant works for a non-profit entity or a governmental entity for 10 consecutive years. Borrowers can qualify for Public Service Loan Forgiveness from the federal government under IBR after 10 years of cumulative or consecutive payments made while employed by a non-profit entity or any state, local, federal, or tribal government.

The Loan Forgiveness Calculation

We entered the debt and income figures outlined above into the New America Foundation IBR calculator, updated for 2013 income exempting based on household size. The calculator tabulates the amount the borrower would have forgiven under the Pay As You Earn version of Income-Based Repayment for a borrower who qualifies for Public Service Loan Forgiveness. The borrower/school makes payments based on 10 percent of income (after an exemption equal to 150 percent of the federal poverty guidelines, which increase with inflation each year). Interest accrues on the loan, but never capitalizes and does not compound.

The calculator shows that based on the income and debt level and the terms of IBR, the average borrower would have $203,390 forgiven on his loan after 10 years of payments. That figure includes all of the borrower's original loan principal and accrued, unpaid interest. We then discount that figure to the present at a 2.5 percent discount rate. That results in a present value of $158,888 in loan forgiveness. The borrower does not need to pay income tax on the amount forgiven.

You can download this example preloaded in the New America Foundation calculator here.

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