



American Bar Association Fact Sheet

The Income-contingent Repayment Option of the William D. Ford Federal Direct Lending Program

Many law students graduate from law school with crushing debt burdens, with many owing \$80,000 or more in law school loans. For law graduates on a standard ten-year repayment schedule following graduation, this may result in payments of more than \$900 per month. With the median entry-level public service law salary at \$35,000, these mortgage-size debts bar most graduates from pursuing public service jobs, such as those with some government agencies or legal services programs. Among the graduates who do take such positions, many are forced to leave after two to three years of employment.

Currently, a federal program exists that can assist graduates seeking legal careers in public service. The income-contingent repayment option (“ICR”) of the William D. Ford Federal Direct Loan Program is available to all borrowers with federal direct loans and borrowers who consolidate their federally-guaranteed loans into federal consolidation loans. Congress created ICR to enable graduates, who have high educational debt, to take lower-paying community service or public service jobs. The ICR limits annual loan repayment obligations to an affordable percentage of a borrower’s income. Any remaining debt is forgiven after 25 years of payments under the ICR plan.

Although ICR was designed to enable graduates to pursue public service careers, very few graduates use it, primarily because of an unwillingness to commit to a 25-year repayment term, even though a different repayment option can be elected at any time. Also, some married borrowers do not use the program because the Department of Education’s ICR formula adds the income of both spouses to determine one spouse’s monthly repayment obligation. By combining the income of both spouses, the program effectively penalizes married two-income, one-debt couples, compared to the repayment obligation for two borrowers who are not married.

- **In order to encourage graduates to use ICR and pursue public service careers, the American Bar Association urges Congress to make two changes to ICR.**
 - Forgiveness of a borrower’s remaining debt should occur after 15 years of repayment, rather than 25, once a specified number of years have been spent in full-time public service during the repayment period.
 - The treatment of married couples’ income under the program should be amended so that no more than half of the joint income of married borrowers is attributed to each spouse.
- **These changes would enable the ICR program to help graduates who enter public service careers, as Congress intended.** The central purpose of the ICR option of the William D. Ford Federal Direct Loan Program was to enable graduates with high debt to pursue public service careers. The changes recommended by the American Bar Association will enable this program to realize its intended goals.

The ABA strongly supports improvements to the income-contingent repayment option of the William D. Ford Federal Direct Loan Program. Congress should provide forgiveness after 15 years for those who have spent a specified number of years in full-time public service. It should also eliminate or reduce the program’s marriage penalty.