

Stanford Law School

MILES AND NANCY RUBIN LOAN REPAYMENT ASSISTANCE PROGRAM

2010 PROGRAM TERMS
October 2009

STANFORD LAW SCHOOL
PUBLIC INTEREST
LOAN REPAYMENT ASSISTANCE PROGRAM

Program Philosophy

Stanford Law School is strongly committed to guaranteeing career choices for its graduates and making public interest law options a more attractive and financially sustainable choice. One way Stanford has manifested its commitment to public interest education and employment is through the School's Miles and Nancy Rubin Loan Repayment Assistance Program ("LRAP"), begun in 1987. The first program was funded by Cummins Engine Foundation and continued through gifts from Kenneth and Harle Montgomery and Miles and Nancy Rubin. In 1994, the Law School's 100th year, LRAP was enhanced and is now clearly a premier program, setting the mark for other national law schools.

For those graduates who take low-paying public interest jobs and have substantial educational debt, Stanford Law School will lend eligible applicants funds to help meet their monthly educational loan payments. Loans are awarded on an annual basis. If the graduate remains in qualifying public interest employment for the full year, 100% of that annual loan is forgiven at the end of the calendar year.

Participation in LRAP assures students and graduates that the Program will offer not less than the benefits described in the following pages. "Participation" means either (a) a graduate has applied to the Program and eligibility for benefits has been verified or (b) a graduate has received a payment from the Program. This guarantee means that Program benefits will not be lessened for participants and, in fact, over recent years the Program's terms have been expanded and Program enhancement has always been grandfathered. Of course, participation also implies responsibility on the part of each graduate to keep the School informed in a timely manner of changes in employment and/or income.

As a direct result of leadership undertaken by Stanford University, most canceled LRAP loans are no longer subject to income tax. The Taxpayer Relief Act of 1997 mandates that canceled student loans for those working in a governmental or non-profit organization are no longer subject to taxation. About 85% of LRAP participants benefit from this measure, as do participants in LRAPs nationwide.

Program Eligibility

Doctor of Jurisprudence graduates of Stanford Law School may apply to enter the Program (that is, commence participation) within the first five years after the January following their graduation from Stanford Law School. Graduates may participate in LRAP for a maximum of ten calendar years following conferral of the J.D. degree. The ten-year rule is not extended if a graduate begins participation in LRAP several years after graduation, engages in academic studies following Law School, or defers payment on student loans.

The Program is committed to abiding by the letter and spirit of the Rehabilitation Act of 1973 and the Americans with Disabilities Act of 1990. Graduates who believe they will require special accommodation may petition the LRAP Committee with their request.

Eligibility for Program participation is based on three factors: (1) employment in a qualifying public interest position, (2) total projected annual income, and (3) outstanding educational debt. Each requirement is detailed below.

A. Qualifying Employment

LRAP is premised upon assisting graduates who choose public interest legal careers. Thus, the Program mandates that employment be (a) law-related, (b) public interest in spirit and content and (c) must be a salary paying position. "Law-related" means that the position must substantially utilize the legal training and skills of the graduate. "Public interest" work is defined as:

- (1) work for an organization qualifying for tax exemption under Internal Revenue Code § 501(c)(3) or 501(c)(4) or 501(c)(5); or
- (2) work for a governmental unit, which includes federal, state, or local government (work performed for a foreign government may also qualify, but is subject to approval by the LRAP Committee); or
- (3) work for private employers (including self-employment or contract employment), at least fifty percent of which involves providing of legal services on a pro bono, reduced, or court-awarded fee basis to persons or organizations that would otherwise not be able to obtain comparable services. In the case of private public interest employment, eligibility shall be determined by the LRAP Committee on a case-by-case basis dependent upon the participant's ability to verify the nature of his or her work and the percentage performed on a pro bono, reduced, or court-awarded fee basis.

A note on judicial clerkships: As a general rule, LRAP does not cover judicial clerkships (even though they involve employment in a governmental unit). The reason is that for many graduates, the clerkship position is a short-term (one- to two-year) commitment that leads directly to a higher-paying position that would not qualify under the Program's terms. However, for the graduate who accepts a judicial clerkship for a

period of up to two years and who intends to take a public interest position after the clerkship is completed, the following provisions apply. These rules also apply to those who participate in a deferred associate program offered by a law firm, if, during their deferral, they volunteer in what would otherwise be deemed “qualifying employment” within the terms of our program.

- (1) Upon approval of the graduate's application, the Program will provide loans for a maximum of two years in a clerkship. The standard income eligibility requirements apply to clerks; however, these loans do accrue interest from the time they are made. Graduates who pursue a third year in a clerkship cannot receive funds for that year.
- (2) If the graduate does accept a qualifying position after the clerkship period, that period will be counted as time in the Program for the purpose of the seniority adjustment. Employment in the qualifying position must commence within 90 days of the clerkship ending; after one year in the qualifying position the accrued interest is reversed. Both the original clerkship loan and the annual loan for employment in a qualifying public interest position are forgiven at the end of that calendar year.
- (3) If the graduate does not take a qualifying public interest position after the clerkship, the loan(s) provided by LRAP will become immediately repayable with interest accruing from the time the loan was made.

A note on teaching: full-time teaching is not considered qualifying public interest employment by the Program. However, graduates engaged in clinical teaching with a practical component may be eligible for LRAP benefits. In addition, post-graduate fellowships at academic institutions for research or teaching will be treated in the same fashion as judicial clerkships for the purposes of LRAP. If a graduate does not enter public interest practice after the fellowship, the loan(s) provided by LRAP will become immediately repayable with interest accruing from the time of the making of the loan.

IRS rules prohibiting employer-provided loan cancellation mandate that graduates may not be employed at Stanford University and receive LRAP benefits.

B. Income Eligibility

Although LRAP's primary criterion is public interest legal employment, limited resources mandate an award structure based on income. The formula for calculating award eligibility is simple:

- For graduates whose adjusted incomes will fall below \$50,000, LRAP will provide a loan covering all of the monthly payments for their need-based student loans for the year.
- For graduates whose adjusted incomes will fall between \$50,000 and \$65,000, LRAP will provide a loan covering the need-based monthly payments for the year less 15% of the income over \$50,000.

- For graduates whose adjusted incomes will fall between \$65,000 and \$80,000, LRAP will provide a loan covering the need-based monthly payments for the year less a base contribution of \$2,250 plus 50% of the income over \$65,000.
- For graduates whose adjusted incomes will exceed \$80,000, LRAP will provide a loan covering the need-based monthly payments for the year less a base contribution of \$9,750 plus 70% of the income over \$80,000.

Modifications are made to the formulas for graduates employed part-time.

- The formula for pro-rating the income level is:

$$40 \text{ hours}/(\text{hours worked}) \times \text{Salary} = \text{Adjusted Salary}$$

For example, imagine a participant employed in a qualifying position for 20 hours per week at an annual salary of \$35,000. Her "adjusted salary" is \$70,000. Her contribution towards her need-based loans for the year would be 50% of \$5,000 (the amount over \$65,000) plus a base contribution of \$2,250, or \$4,750.

For those who work in non public interest employment for part of the year and then decide to pursue a qualifying public interest job for the remainder of the year, the following will apply:

- Graduates may apply during the year as soon as they are eligible.
- Loan awards will be prorated to cover only the months of public interest employment.
- The total income (non public interest plus public interest income) for the year is used to determine income eligibility.

Graduates project their total income for the year (that is, their anticipated federal Adjusted Gross Income, or AGI, that will appear on their 2010 income tax return). In calculating LRAP award eligibility, several adjustments to the projection are made:

- (1) Spouse's income. In determining AGI for purposes of a graduate's Program participation, the married graduate will be treated as having the higher of (a) his or her individual income; or (b) half the joint income. Any educational loan payment for the spouse will be subtracted from the spouse's annual income. In the event both spouses are applicants under the Program and each spouse has a projected AGI under the LRAP income ceiling, each spouse will be treated as having half of the joint income.
- (2) Dependents' allowance. In determining AGI, an exemption up to \$8,000 for each minor dependent child will be allowed. If the child will not be claimed as a dependent on the participant's tax return, the graduate must supply the School with verification of expenses paid on behalf of the

child. In the case of two participants in LRAP with dependent children, the total number of children will be divided between the participants. For example, imagine a married couple both of whom participate in LRAP. If the couple has 1 child, each participant will have \$4,000 deducted from their income.

- (3) Seniority adjustment. To encourage participants to remain in the public interest sector and to accommodate salary increases due to seniority, \$1,000 will be deducted from the participant's projected salary for every year in public interest employment. The seniority adjustment is applied starting in the second year of public interest employment. For example, an attorney earning \$67,000 who is beginning her fourth year of public interest employment will be treated as if her income is \$64,000.
- (4) Assets. Any substantial physical and financial assets over \$130,000 will be included as income.
- (5) Business expenses. For self-employed participants, a maximum of 25% of receipts shall be allowed as a business expense in calculating Adjusted Gross Income.
- (6) Student loan interest deduction. Taxpayers are now able to deduct from income the interest they paid on their student loans. However, LRAP does not consider this federal adjustment in determining award eligibility.

At the end of each year, participants provide their tax returns for income verification. If differences exist between projected and actual amounts, the participant has their subsequent award modified (up or down). If no new award will be made, participants may be billed if they received an "overaward" (i.e., under-projected their income). This "overaward" is due immediately. Furthermore, if the participant spent part of the year in a qualifying public interest job and part of the year in non-qualifying employment, the income calculation is based on the combined income from both jobs for that particular year. A pro-rated calculation based on only the time spent in the qualifying public interest job is not done in verifying the amount of money that the participant must pay back. The amount that the participant must pay back is based on the total income for the year regardless of whether the participant spent time working at both a qualifying public interest job and at a non-qualifying public interest position. It is each participant's responsibility to inform the Law School of any income or employment changes during the year.

Participants who have filed or will file a bankruptcy claim, are not eligible to receive LRAP funding.

C. Educational Loans

LRAP provides financial assistance toward the monthly payments of participants' need-based student loans. "Need-based" means loans taken to meet eligible in-school expenses. Sometimes students choose to borrow funds in lieu of their "student

contribution." Such amounts are not considered need-based and are not covered by LRAP. Only loans made for educational purposes to meet undergraduate, law school, and other graduate school degree requirements and bar examination and examination preparation expenses are eligible for assistance from LRAP. Loans for bar study expenses are capped at \$8,500 per participant. Family, personal, or loans for other than educational purposes will not be counted in determining required monthly loan payments.

Graduates cannot participate in LRAP if they are either in delinquency, deferment, forbearance or default on their original student loans. Once loan accounts have cleared, then the Law School will process the LRAP application. Furthermore, defaulted loans are not eligible for LRAP and will not be used in determining the graduates' award. Subsequent loans that graduates take to repay defaulted loans are also ineligible for LRAP.

Graduates may decide to consolidate their loans with a longer repayment term under the Federal Consolidation Loan Program, or may extend private loan repayment periods. However, LRAP will only cover consolidated/extended actual payments made or monthly payments that would be required on a 10-year repayment schedule. An example of a consolidation program is the Government's Direct Loan Income-Contingent Repayment Program. With this particular program, the graduate will be getting the benefit of an income-based plan.

It is usually in the participants' interest to have LRAP make its awards based on monthly payments that would be required on a 10-year repayment schedule rather than using the consolidated/extended figure. In any event, LRAP only provides assistance through the tenth year following Law School graduation, regardless of a participant's repayment term.

If graduates' educational loans were not put on a 10-year plan at the time they entered repayment, LRAP can cover their increased monthly payments starting in 2007 if they change their current plan to a 10-year schedule (from the time they entered repayment). In order to shift repayment plans, participants must contact their lender(s) and request a statement indicating what their new monthly payment will be.

Loans Under the Program

Participants apply annually for Program benefits. Depending on participants' adjusted gross income for 2010, some applicants will be eligible for LRAP awards. Others who have been participants in LRAP under earlier guidelines and who have been in deferment will now proceed to have those loans cancelled rather than kept in deferment.

A. Loans

LRAP loans will be made in accordance with the income eligibility schedule outlined above. In addition, participants who received LRAP loans in prior years will have their eligibility for such funds verified through submission of their tax return. In the event they over-projected their income such participants (if eligible for new funds) shall have the additional funds also awarded; if they under-projected their income, the excess

is deducted from any disbursement. If the excess amount exceeds eligibility for new funds, the participant is billed for the excess and that amount is not eligible for future loan cancellation.

LRAP funds must be used to pay down participants' educational loans. Participants are required to submit their most recent lender statement for all loans.

B. Interest

Interest on LRAP loans shall be at the Stanford University general student loan rate of interest to new borrowers as of the time the loan is made. That rate is currently 6.8%. Interest on any loan will accrue during periods when the loan is in repayment status; in addition, for judicial clerks, interest accrues from the time the loan is made.

Interest will not accrue for any period that the graduate is in public interest employment, including periods when the graduate is receiving Program loans. There is no penalty for prepayment of LRAP loans.

C. Loan Cancellation

Commencing with the 2009 program year, cancellation will occur on an annual basis. Note that cancellation applies to eligible principle only – the amount awarded following verification of eligibility. For some individuals, the amount eligible for cancellation may not equal the amount initially awarded.

D. Loan Repayment

Upon termination of qualifying employment, balances due on loans made under the Program, including any accrued interest, will be repayable on the terms set out in the note(s) executed by the participant. The term of repayment under any note will not exceed five years. The repayment period begins on the first of January following the earliest of:

- The date the borrower ceases to be employed in qualifying public interest employment, or
- The date the borrower fails to provide confirmation and verification information for the prior year's LRAP participation, or
- Ten years after graduation from Stanford Law School.

E. Application, Cancellation Procedure, and Loan Disbursement

The Program operates on a calendar year basis, and loans are made prospectively. Participants who file a complete application in a timely manner may anticipate receiving their entire annual LRAP loan disbursement by the end of December. Since the application for LRAP benefits is prospective, income estimates and other information will be subject to end-of-year verification. Copies of federal income tax returns filed must be submitted to confirm eligibility for Program benefits previously awarded.

Cancellation operates retrospectively. In other words, eligibility for loan cancellation must be verified before cancellation can be effected. Application for cancellation of any portion of the loan balance must be accompanied by documentation (such as W-2 wage statements, income tax returns, or other such information as may be required by the Law School) to establish eligibility for cancellation.

An important tax issue which affects the cancellation of LRAP loans has been recently clarified. The Taxpayer Relief Act of 1997 includes a provision making canceled student loans, including loans to repay loans, non-taxable for those working in governmental and non-profit employment. Section 108(f) of the Internal Revenue Code by the Taxpayer Relief Act of 1997 allows LRAP participants who work for section 501(c)(3) organizations or governmental entities to exclude their forgiven loans from taxation. Most 501(c)(3) organizations are listed in the IRS' Publication 78. If the employer is not listed in this publication, then the graduate needs to provide proof of section 501(c)(3) status such as a copy of the employer's IRS tax exempt certificate.

Those graduates who do not work for section 501(c)(3) organizations, governmental entities, or other tax exempt employers will be taxed on their forgiven loans and will receive Form 1099-MISC. Private public interest and self-employment fall into this category.

LRAP loan disbursements cannot be made if applicants are either in delinquency or default on any student loan payments.

F. Procedure in the Event of Graduate's Inability to Pay Educational Debt

There are various reasons participants might find themselves temporarily unable to pay their educational debts. Although it remains the responsibility of the graduate to keep their student loans in good standing, the Program recognizes that brief periods of unemployment or unpaid absence from work due to family leave should not force individuals to withdraw from participation.

In the case of family caretaking responsibilities, the following provisions apply:

- If the participant is granted paid leave from his/her employer, the participant shall maintain his/her eligibility for loan assistance and shall be treated as a full Program participant.
- If, on account of parental/family caretaking responsibilities, a participant must take extended unpaid leave from an employer, or must quit his or her job, the participant is expected to apply for loan forbearance from his or her lender(s). Participants who are successful in attaining loan forbearance neither require nor receive LRAP assistance during the time in forbearance. If the graduate does not re-enter qualifying employment at the end of the forbearance, he or she shall be considered to have withdrawn from participation in LRAP at the time the leave began.

- If a participant's application for forbearance is denied, the person is entitled to "family leave status" under LRAP. Under family leave status, a participant will continue to stay in LRAP, but no award will be given. If the graduate does not re-enter qualifying employment at the end of the leave of absence, he or she shall be considered to have withdrawn from participation in LRAP at the time the leave began. Family leave status is a limited accommodation that shall not exceed 24 months (over the entire course of a person's participation in the Program).

In the case of unemployment, the following provisions apply:

- The definition of either full- or part-time employment includes brief, temporary absences (usually no more than 3 months) that are covered by leave from the current employer (paid or unpaid) or that occur during a transition from one qualifying position to another.
- A graduate who is unemployed for more than a brief period should request an "unemployment deferment" from his or her original lender(s); if granted, the participant does not need funding from LRAP. In such situations, the graduate will not be required to withdraw from the Program, unless they do not subsequently begin a qualifying job within 3 months. Participants can apply for an extension up to 12 months.

G. Exit and Re-entry to LRAP

Graduates occasionally withdraw from participation in LRAP ("exit") and subsequently wish to resume participation. The following provisions apply:

- Participants who exit and re-enter the Program receive credit for the years they were in the Program (for seniority purposes). For example, if a participant is in LRAP for two years, leaves for two years, and re-enters, the participant's first year back will be considered his or her third year when calculating the seniority adjustment.
- A participant may re-enter the Program any time within 10 years of graduation.
- When a participant re-enters the Program, that participant can cease repayment of the loans awarded by LRAP during the earlier Program participation.
- A participant may be in the Program for up to 10 years after graduating from the Law School, such that, if a participant has received funding for one year of participation and then leaves the Program for 2 years, he or she may re-enter with 7 years of remaining eligibility.

- Any prior debt remaining from a previous enrollment in the Program will be deducted from future awards. If the prior program debt is not cleared by the earlier of five years (original repayment term) or the end of your program eligibility period, the debt will become immediately due.

LRAP Administration

The LRAP Steering Committee, which consists of Law School alumni/ae, students, and staff, provides review and oversight of the Program. The Committee reports to the Dean on the progress of the Program, and on any proposed policy or eligibility changes. Case-by-case review of applications are made by the LRAP Executive Committee, which consists of the Program administrator, the Associate Dean for Admissions and Financial Aid, the Chief Financial Officer and the Associate Dean for Public Service and Public Interest Law.

The Steering Committee regularly reviews and evaluates LRAP, cost-of-living adjustments, loan forgiveness terms, and other features of the Program. Goals are measured against the policy objectives of LRAP and the resources available to support the Program. Adjustments will be made in the income eligibility schedule to reflect cost-of-living and prevailing wage changes. Stanford stands behind its assurance to alumni/ae that once participation in the Program has begun, benefits will not be cut back in any way.

The Law School receives and reviews applications for participation in LRAP. The Student Financial Services Office of Stanford University is responsible for administering loan disbursement, and collecting and canceling LRAP loans.

Inquiries about LRAP may be addressed to:

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Some Questions & Answers about LRAP

1) What if my income changes during the year?

Please report changes in income to the Law School promptly--this avoids headaches later. Note that awards are modified as a result of income verification (from tax returns). Thus, if a participant over-projects their income, they will receive the additional amount they would have been awarded; if a participant under-projects, the excess will be deducted from a new award. In the event the excess exceeds award eligibility, the participant is billed for the difference.

2) What if my family situation changes over the course of the year?

Getting married and/or having a child can affect your LRAP award eligibility. Although awards are based on initial projections, they are modified as a result of end-of-year tax returns. Thus, the tax return you file, showing the number of exemptions you claim, will determine your award eligibility for the year.

3) Why does my LRAP award differ from my calculations?

There are two different reasons awards most often differ from applicants' own calculations. First, LRAP only covers need-based student loans. Thus, graduates who are repaying "non-need-based" loans, most often borrowed to cover their in-school student contributions, find their LRAP awards to be lower than expected. Second, prior-year awards are verified against end-of-year tax returns; new awards are modified (up or down) if the earlier awards were inaccurate.

Additional information as well as an on-line, interactive calculator can be found at <http://www.law.stanford.edu/program/tuition/assistance/#overview>.