

Law School Student Loan Repayment:

Strategies for Graduates Entering the Private Sector

Presented by:

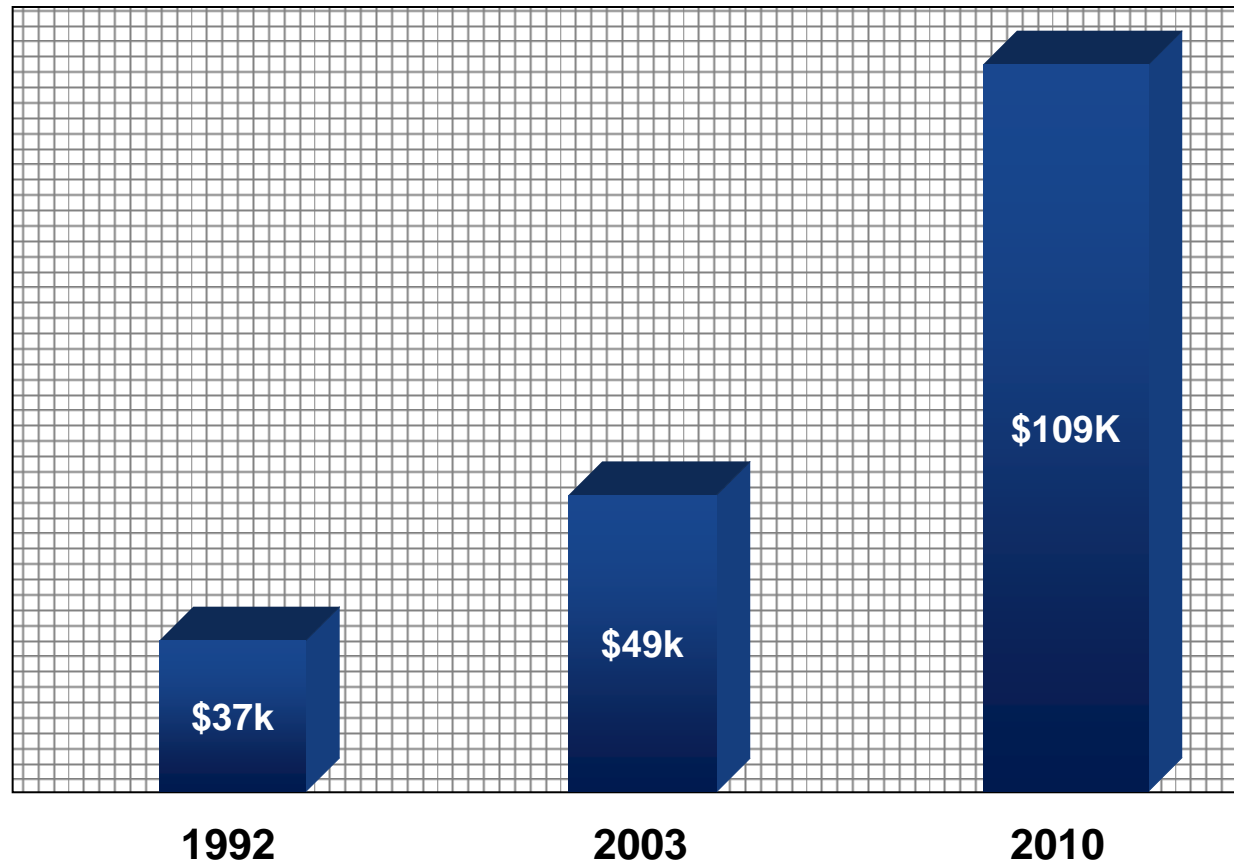
Jason DiLorenzo

Boalt Hall “Tax Day”

March 3rd, 2011

- ***Brief Examination of Law Career Economics***
- ***Income-Based Repayment (IBR): What it is and how graduates can navigate it to maintain liquidity early in career***
- ***Targeted Repayment***
- ***Strategic debt reduction and other financial objectives (home purchase, stock market)***

Changes in Student Debt Levels

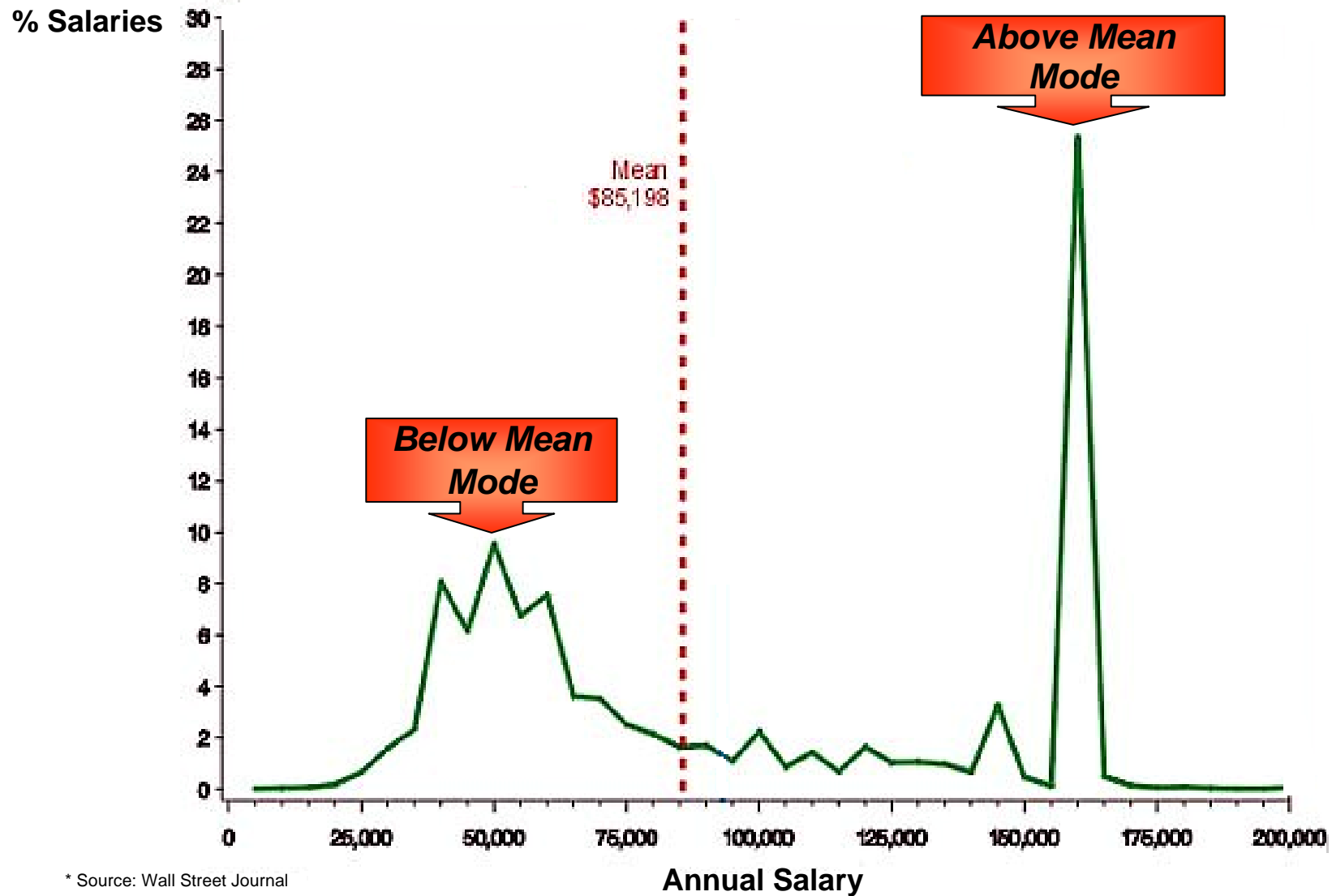


Debt levels have doubled in the last 7 years

* Based on data collected by The American Bar Association and GL internal student database

Law Distributions

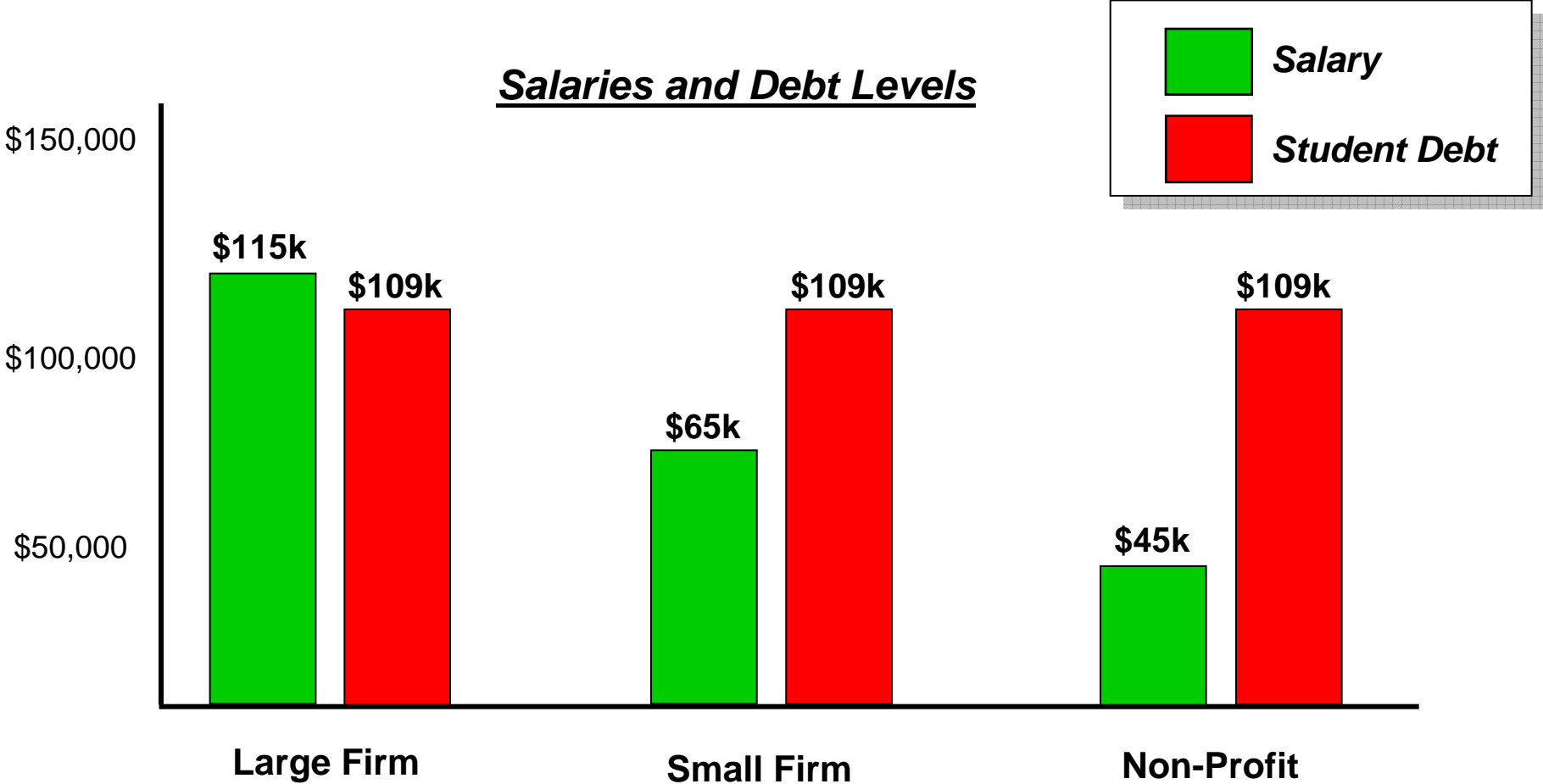
Law Class of 2009 Salaries



* Source: Wall Street Journal

Career Paths

Salaries and Debt Levels



Income-Based Repayment (IBR)

Partial Financial Hardship

- Limit monthly payment to 15% of discretionary income, capped at 10-year standard
- 2014: Monthly payment limit reduced to 10%

Government Subsidy

- Subsidized interest not covered by reduced payment is paid by government
- Subsidy is provided for maximum of 3 years

Loan Forgiveness

- Unpaid balance forgiven after 25 years

Income-Based Repayment

- **Goal for Law borrowers:**
 1. **Minimize Payment Burden Early in Career for Liquidity**
 2. **Maximize Any Available Subsidy**
- **Problem is IBR process and forms are complicated and unintuitive, furthermore lenders and government have disincentive to support.**
- **Common mistakes made by borrowers with IBR:**
 - **Using salary data instead of AGI**
 - **Provide supporting documentation not reflective of actual AGI**
 - **Not using the most appropriate tax data and filing year (married joint/separate, etc.)**
 - **Timing of filing**

How is IBR calculated?

(AGI – 150% Poverty Level) x 15%

12 months

Estimate in years 1 & 2 for graduate with \$120k Salary:

(\$60,000 – \$16,335) x 15%

12 months

= \$546 / mo.



IBR Charts

Family Size = 1, Lower 48 States

IBR Payments, Year 1

		Debt								
		\$50,000	\$75,000	\$100,000	\$125,000	\$150,000	\$175,000	\$200,000	\$225,000	\$250,000
Salary	\$50,000	\$89.56	\$89.56	\$89.56	\$89.56	\$89.56	\$89.56	\$89.56	\$89.56	\$89.56
	\$75,000	\$245.81	\$245.81	\$245.81	\$245.81	\$245.81	\$245.81	\$245.81	\$245.81	\$245.81
	\$100,000	\$402.06	\$402.06	\$402.06	\$402.06	\$402.06	\$402.06	\$402.06	\$402.06	\$402.06
	\$125,000	\$558.31	\$558.31	\$558.31	\$558.31	\$558.31	\$558.31	\$558.31	\$558.31	\$558.31
	\$150,000	\$577.33	\$714.56	\$714.56	\$714.56	\$714.56	\$714.56	\$714.56	\$714.56	\$714.56
	\$175,000	\$577.33	\$870.81	\$870.81	\$870.81	\$870.81	\$870.81	\$870.81	\$870.81	\$870.81
	\$200,000	\$577.33	\$870.81	\$1,027.06	\$1,027.06	\$1,027.06	\$1,027.06	\$1,027.06	\$1,027.06	\$1,027.06
10 Year Std.		\$577.33	\$870.81	\$1,180.50	\$1,491.94	\$1,800.16	\$2,100.19	\$2,413.36	\$2,715.03	\$2,967.54
25 Year Std.		\$349.41	\$530.08	\$730.88	\$933.93	\$1,132.99	\$1,321.83	\$1,527.11	\$1,718.00	\$1,847.48

Payment Capped (10 Year Std.)	Payment < 10 Year Std.	Payment < 25 Year Std.
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IBR Charts

Family Size = 1, Lower 48 States

IBR Payments, Year 3

		Debt								
		\$50,000	\$75,000	\$100,000	\$125,000	\$150,000	\$175,000	\$200,000	\$225,000	\$250,000
Salary	\$50,000	\$383.31	\$383.31	\$383.31	\$383.31	\$383.31	\$383.31	\$383.31	\$383.31	\$383.31
	\$75,000	\$577.33	\$695.81	\$695.81	\$695.81	\$695.81	\$695.81	\$695.81	\$695.81	\$695.81
	\$100,000	\$577.33	\$870.81	\$1,008.31	\$1,008.31	\$1,008.31	\$1,008.31	\$1,008.31	\$1,008.31	\$1,008.31
	\$125,000	\$577.33	\$870.81	\$1,180.50	\$1,320.81	\$1,320.81	\$1,320.81	\$1,320.81	\$1,320.81	\$1,320.81
	\$150,000	\$577.33	\$870.81	\$1,180.50	\$1,491.94	\$1,633.31	\$1,633.31	\$1,633.31	\$1,633.31	\$1,633.31
	\$175,000	\$577.33	\$870.81	\$1,180.50	\$1,491.94	\$1,800.16	\$1,945.81	\$1,945.81	\$1,945.81	\$1,945.81
	\$200,000	\$577.33	\$870.81	\$1,180.50	\$1,491.94	\$1,800.16	\$2,100.19	\$2,258.31	\$2,258.31	\$2,258.31
10 Year Std.		\$577.33	\$870.81	\$1,180.50	\$1,491.94	\$1,800.16	\$2,100.19	\$2,413.36	\$2,715.03	\$2,967.54
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Payment Capped (10 Year Std.)				Payment < 10 Year Std.			Payment < 25 Year Std.			

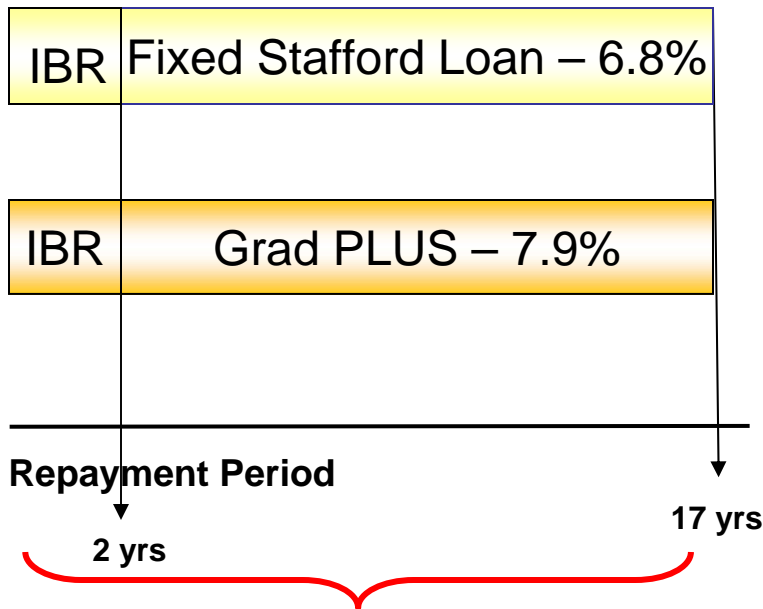
Targeted Repayment

Graduating

Large Firm

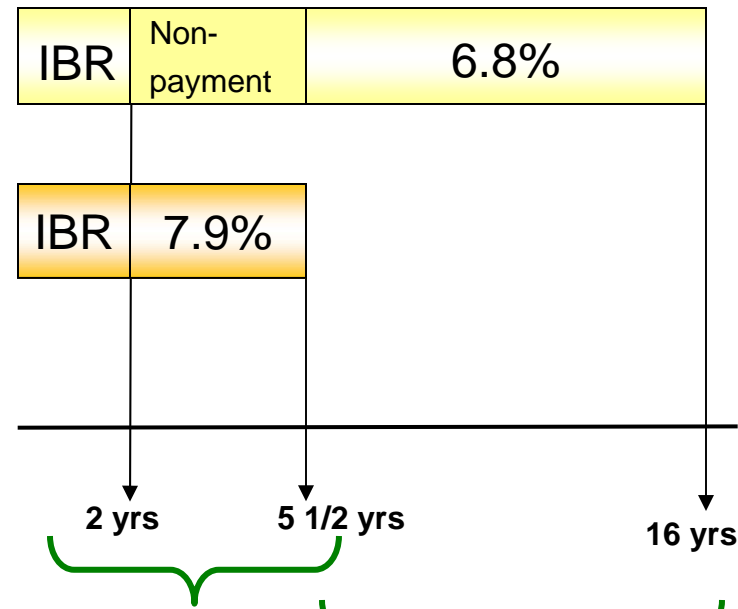
Standard Repayment Plan

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7.36%

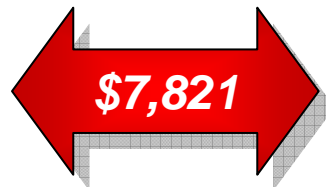
Effective Rate (APR) = 7.36%



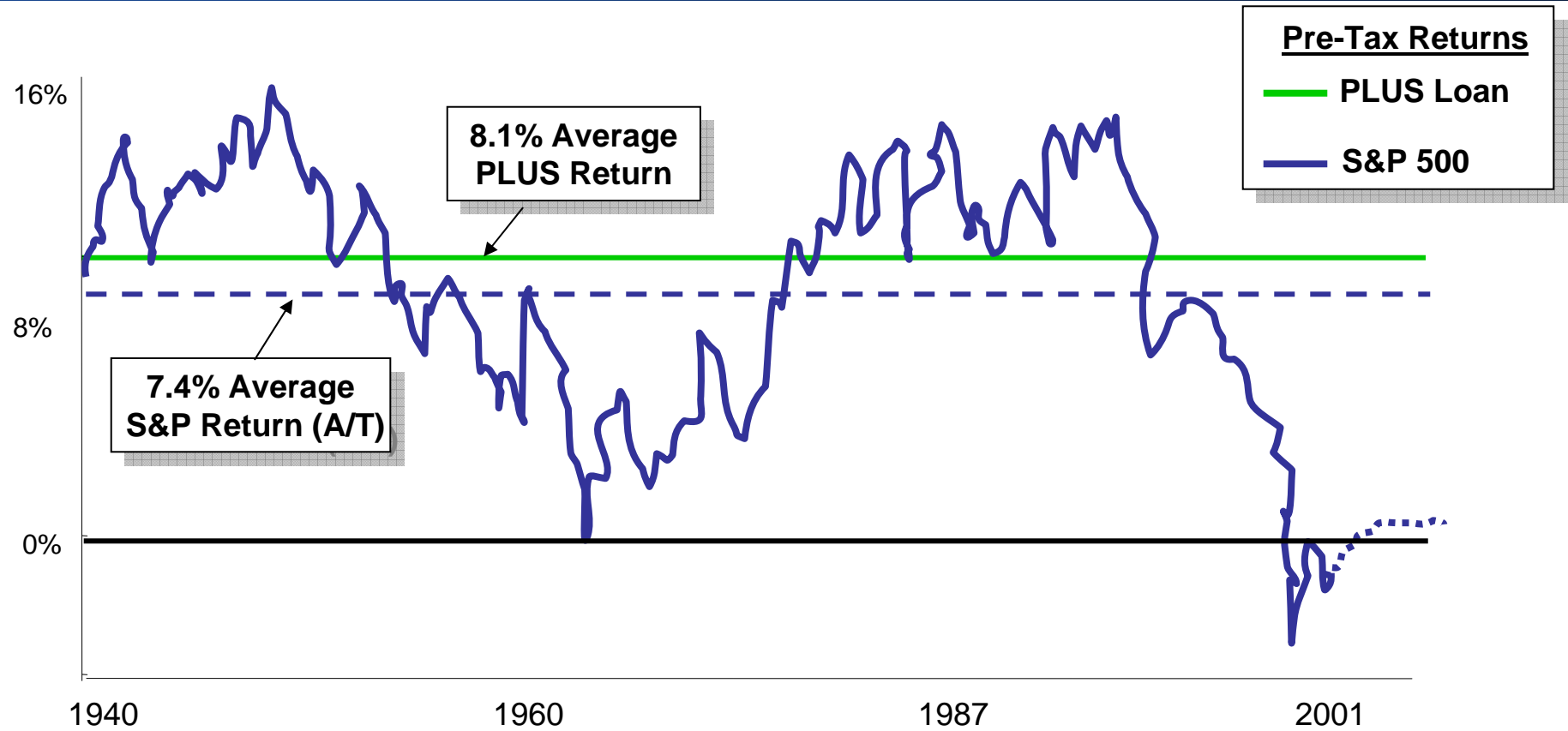
7.82%

6.77%

Effective Rate (APR) = 6.96%



Stock Investing



Sources: Yale Econ/Robert Shiller, Standard & Poor's, Federal Reserve, Bloomberg

All Returns Here Are After Tax

Home Or Practice Purchase

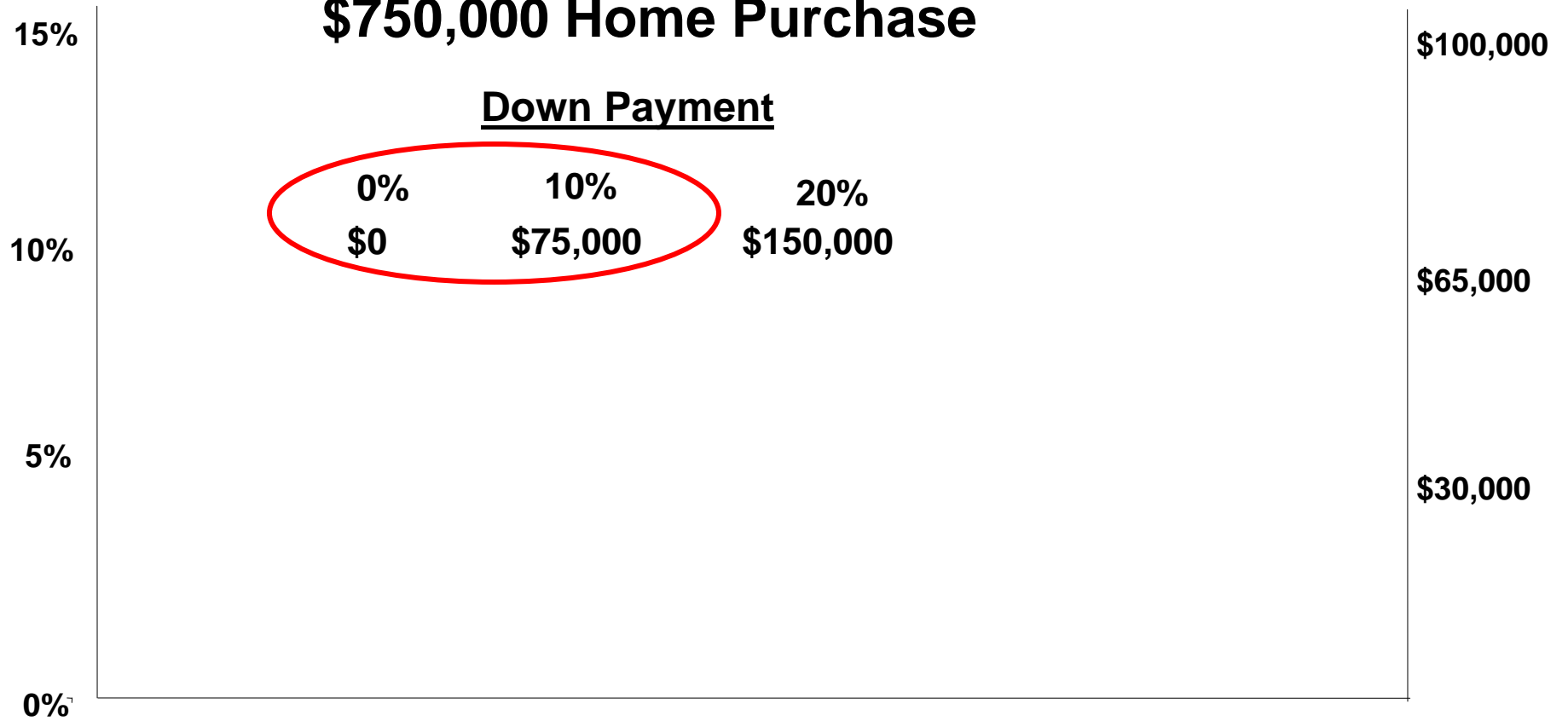
- New Attorneys lack liquidity in early years:
 - Most make major purchase (home, practice, etc.)
- Even if loans can be secured with minimum liquidity
 - The incremental cost has increased substantially

Home Purchase Example

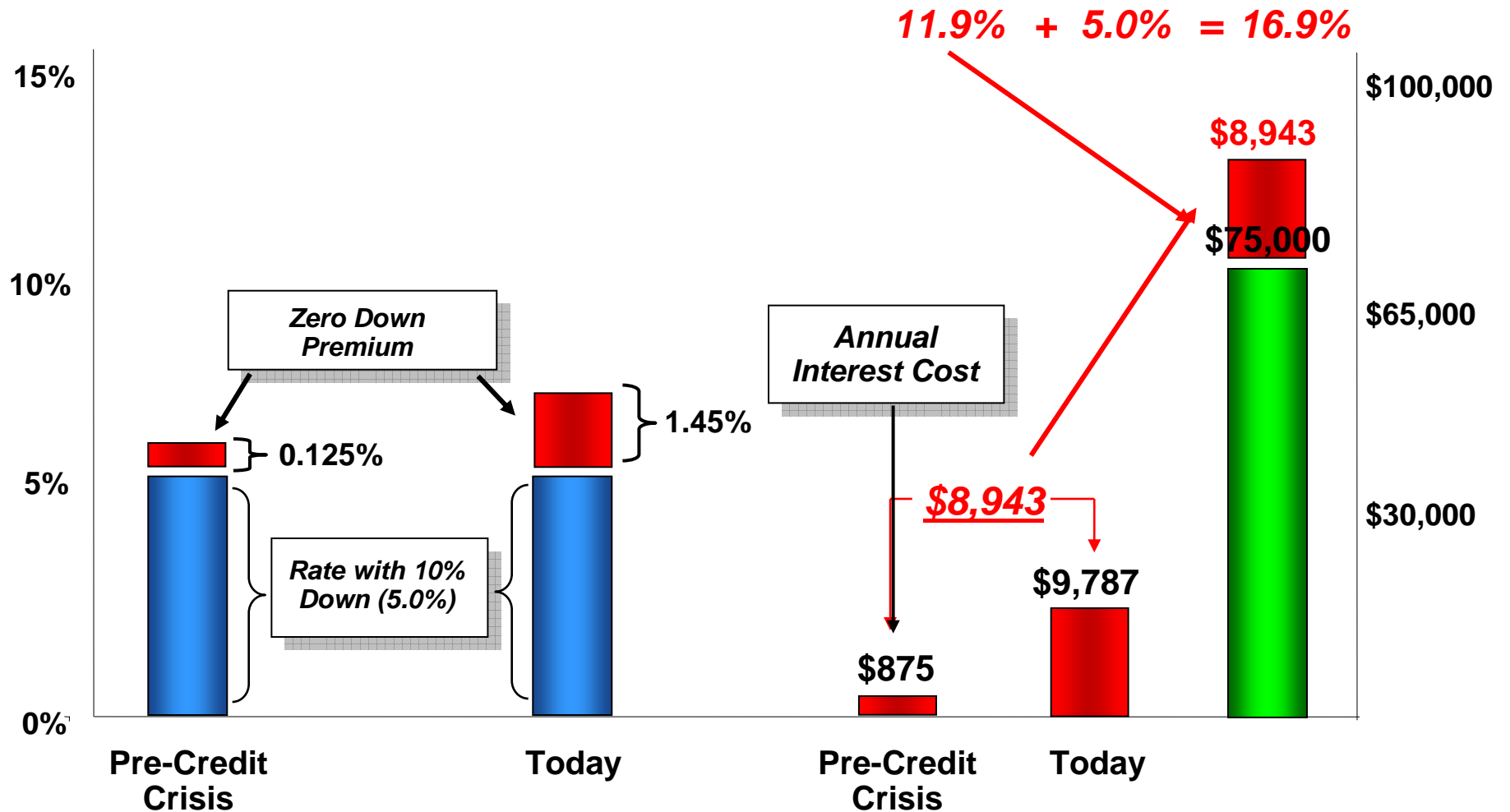
\$750,000 Home Purchase

Down Payment

0%	10%	20%
\$0	\$75,000	\$150,000

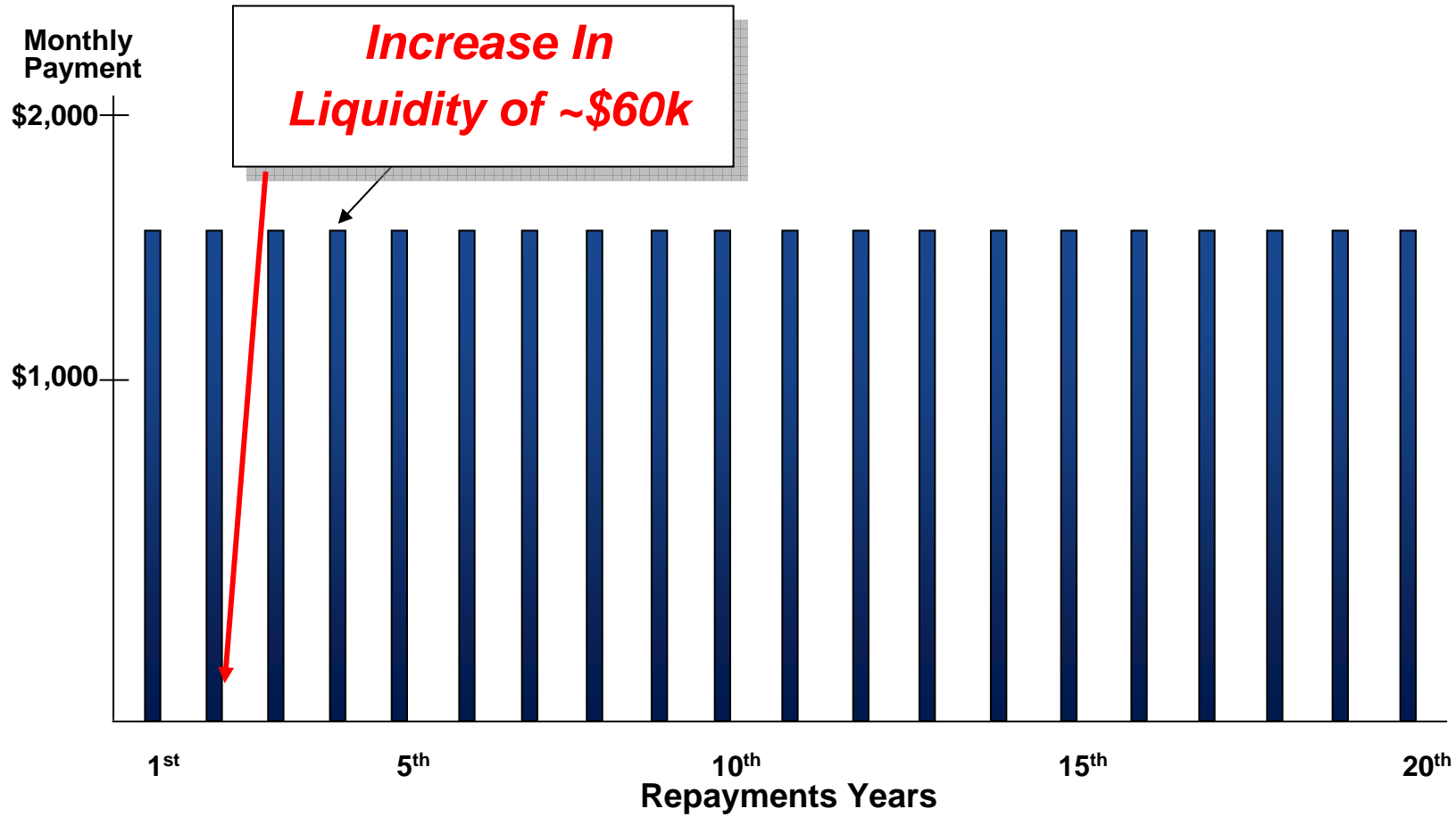


Home Or Practice Purchase



17% Annual Cost On Down Payment

Liquidity Solution



Thank You

Contact Info:

Jason DiLorenzo

jdilorenzo@gladvisor.com

Phone: 415.722.8552