the

LAWYER'S GUIDE

to taking out and paying back student loans

When Chris Miller was in high school, everyone told him he should be a lawyer. He had a passion for debate and had a gift for persuasive speech.

"My parents, guidance counselors — everyone was convinced I should go into law," Miller says. "Not only did they think I'd be good at it, but they said I would always have an excellent salary and job security. It sounded perfect."

Miller worked hard in college and was accepted into law school. After graduation, he landed a job quickly with a boutique law firm, albeit at a lower salary than he initially imagined.

"I was one of the few from my graduating class who had a job within three months of leaving school, so I was lucky," said Miller. "I thought I was set."

However, the grace period on his law school loans ended and payments came due. Like thousands of others, Miller was shocked to find that his law school loan payments ate up such a substantial part of his salary.

"I went from dreaming of retiring early to worrying about how I was going to pay my rent," said Miller.

Miller is just one of thousands of law school graduates who were taken by surprise by a competitive job market and changing debt and income landscape. As the cost of law school has risen — pushing up average student loan debt for law school graduates — more new attorneys are facing hefty student loan debt and lower-than-expected salaries.

If you are planning to go to law school, **consider education costs, employment opportunities, law school loan rates, and your debt-to-income ratio** to ensure a bright financial future.

Law school student loan debt

Pursuing your dream of becoming a lawyer is not cheap.

According to the American Bar Association, nine out of 10 law students rely on student loans to pay for their education. For those who choose to go to public universities, average law school loan debt is about $88,000. If you instead decide to go to private school, law school loan debt averages $127,000.

Factor in undergraduate debt, and the debt burden can be even greater. **The New America Foundation estimates** that law school graduates carry an average of $140,616 in total student loan debt, requiring payments of $1,187 a month.

U.S. News & World Report's **law school graduate debt rankings** demonstrate that where you choose to go for your law degree can significantly affect your student loan debt. For instance, if you decide to go to a top-tier law school like Columbia University in New York, you can expect to leave school with an average of over $154,000 in debt. But if you went to a less prestigious institution, such as Brigham Young University in Utah, you might expect to have have only about $54,000 in law school loan debt after graduation.

Salaries in law and legal services

While the debt associated with law school loans may seem very high, most students expect to make an excellent income as a lawyer, which would offset the expensive loans. We tend to think of lawyers as high earners with a flashy lifestyle, but actual wages can vary widely.

The **U.S. Bureau of Labor Statistics lists the national average salary for attorneys** as $115,820 a year, but that does not capture the extreme variations within the field. According to the National Association for Law Placement (NALP), it's not unusual for graduates of top-tier law schools to sign on with a major firm with a **starting salary of $160,000**, while the median entry-level salary at public interest organizations is $47,000.

Additionally, while it used to be that a fresh law school graduate would field multiple offers, the market has become much more competitive. After the recession in 2008, entry-level jobs were much harder to get, even in the lower-paying public sector. According to research by the NALP about 87 percent of members of the law school class of 2015 landed jobs, with others continuing to look for work long after graduation.

When evaluating whether or not your potential income can justify the expense of law school, it's important to consider your debt-to-income ratio, a key indicator of your overall financial health. Calculating your ratio can tell you if you can afford to take on loans, or if you will have to pursue alternative options.

To calculate your debt-to-income ratio, divide your monthly debt payments by your expected gross monthly income. The National Foundation for Credit Counseling advises that you **shoot for a ratio of 36 percent or less** — the lower the number, the better your financial outlook.

Current rates for law school loans

With law school easily costing over $150,000, paying for it can be difficult. A majority of students end up looking for law school loans, whether federal and private, to finance their education. According to the U.S. Department of Education's Office of Federal Student Aid, you have the following options available to you for a student loan for law school:

Federal direct unsubsidized:

Law students can borrow up to $20,500 each year from the U.S. Department of Education in federal direct unsubsidized loans. Because these loans are unsubsidized, interest begins to accrue as soon as the loan is disbursed to you. For direct unsubsidized graduate school loans issued during the 2016-2017 school year, rates will be fixed at 5.31 percent for the life of the loan. There is a grace period of six months where you do not have to make payments while you search for a job, but interest will accrue on your loan. These loans are eligible for deferment and different repayment plans, such as income-driven plans.

Federal direct PLUS loans for graduate students:

If you don't have any adverse events in your credit history, you may qualify for a federal direct PLUS loan. If you have issues in your credit file such as bills that are more than 90 days late, or a bankruptcy or foreclosure within the last 5 years, you will need an endorser. With PLUS loans, you can borrow as much as you need to cover your school expenses, minus other forms of financial aid or grants you receive. PLUS loans for graduate students also have a grace period, but begin to accrue interest as soon as they are disbursed. PLUS loans issued during the 2016-17 school year will carry an interest rate of 6.31 percent.

Private loans:

If you are not eligible for federal loans, are looking for more competitive interest rates and options, or need postgraduate loans while you study for the bar review, private loans can be an option. Terms for law school loans made by private lenders can vary widely regarding grace periods and repayment terms, so consider all of these factors before choosing a certain lender.

Private loans vs. federal law school loans

Keep in mind there's a $138,500 lifetime limit on federal direct loans to professional and graduate school students in non health-related fields like law. That's an aggregate total for your undergraduate degree and law school. To fund remaining expenses, you can turn to private loans or federal PLUS loans, up to the total cost of attendance at your school.

When reviewing your options, including deciding between federal and private law school loans, make sure to evaluate the interest rates available for each type of loan. Government loans can be surprisingly expensive — particularly when you hit limits for federal direct loans, and must consider taking out PLUS loans.

For loans issued during the 2016-2017 school year, rates on federal direct unsubsidized loans for grad students will carry 5.31 percent interest. Rates for PLUS loans issued for 2016-2017 will be 6.31 percent. Additionally, PLUS loans also carry a hefty 4.3 percent disbursement fee that is due up front when you receive the loan, adding to the overall cost. This fee effectively adds nearly a full percentage point to the annual percentage rate **(APR) of a PLUS loan**, bringing it close to 7.29 percent.

With law school, where many borrowers end up taking on six-figure student loan debt, the high interest rates can add significantly to your total repayment cost.

With private lenders, you may be able to get a more competitive interest rate, saving yourself thousands of dollars over the life of your law school loans. Before taking out a grad PLUS loan, you can use Credible.com to **get personalized rate quotes** from different private lenders to compare your options.

For example, one of the **lenders competing for business through the Credible platform**, Citizens Bank, offers fixed-rate loans with no fees at rates between 3.74 percent and 11.75 percent. If you opt instead for a variable rate, you can get an initial interest rate as low as 2.49 percent, with no upfront fees. Citizens will loan up to $170,000 to qualified borrowers, at rates that depend on your credit history and the size and length of your loan.

Law school student loans and cosigners

If you are going to law school and are not working, have a modest salary or lack a strong credit history, you may need a cosigner to qualify for a private student loan and get the most competitive interest rates. If you have a parent, relative or loved one with a good credit score, that can help you save money in the long run.

Credible's **analysis of rate requests** submitted through the site's student loan marketplace revealed that:

- ✤ 56 percent of graduate students received rate quotes if they had a co-signer, compared with 45 percent who received a rate quote without one.
- ✤ For graduate students with a cosigner, their loan quotes had an average interest rate of 4.59 percent. Those without a cosigner averaged 6.21 percent.

But asking loved ones to serve as a cosigner is a big request; by adding their name to your loan, they agree to fulfill your obligation to repay the loan if you do not do so. While they do not get the benefit of the education you receive, if you miss payments, they are responsible for picking up the slack.

One thing to keep in mind is that with private loans, you have the option of removing the cosigner later on. Many lenders will release the cosigner once the primary borrower has established a history of timely payments and can prove a reliable income. Private loans can give you more tailored options to suit your needs, rather than federal loans which are the same across the board, regardless of the individual's situation.

Private loans vs. federal law school loans

After law school, you may have thought your biggest challenges would be acing the bar exam and finding the perfect job at a choice law firm. But tackling your law school loans can be challenging and overwhelming, too. Before heading off to school, carefully assess your options, including what school you will attend, what kind of job you want to pursue after graduation and what it will pay, what kind of loans you will need. By being proactive and developing a repayment strategy, you can manage your loans and maintain a healthy debt-to-income ratio.

Earning a law degree can lead to a career with a high salary, but many new attorneys struggle with hefty student loan payments. According to the American Bar Association, **you may graduate with $88,000 to $127,000 in law school loan debt**, depending on whether you went to a public or private school.

However, there are law school loan assistance programs and alternative repayment plans to help you manage your debt. Used strategically, these assistance programs, repayment plans or law school loan refinance offers can save you money over the life of your loans.

Law school loan repayment assistance programs

Depending on where you went to school, the amount of your debt and your career path, you may be able to take advantage of one of these repayment options:

Loan Repayment Assistance Programs (LRAPs):

LRAPs are available to law school graduates from over 100 different universities. Eligibility for many of them is based on your income and whether you work in some form of public service, such as serving as an attorney for a non-profit organization or legal aid (See our **list of schools offering LRAPs and requirements**).

Federal repayment assistance:

Federal repayment assistance: Under the **John R. Justice Student Loan Repayment Program**, state and federal public defenders and state prosecutors are eligible for loan repayment assistance if they stay in public service for at least three years. According to Equal Justice Works, an organization that supports law graduates interested in the public sector, public defenders and state prosecutors may qualify for **up to $10,000 a year** in assistance. To apply, you need to work with your designated **state agency**.

State repayment assistance:

Some states offer assistance programs, as well. Annual awards can range from $650 up to $10,000, depending on the state and your unique situation. Each state has different criteria, but most require public service, such as providing legal aid to low-income residents, working in education or with a non-profit organization. Check your state's availability to see what you may be eligible to receive.

Repayment options for government law school loans

If you do not qualify for one of the assistance programs or need additional help making your payments on your federal student loans, there are alternative payment plans that may help. The Department of Education's Office of Federal Student Aid offers the following alternatives to the standard 10-year repayment term, depending on your circumstances:

Extended repayment:

With an extended repayment plan, your payments may be fixed or graduated and spread over 25 years, reducing your monthly payment.

Revised Pay As You Earn plan (REPAYE):

With **REPAYE**, your monthly bill is capped at 10 percent of your discretionary income. For borrowers with law school debt, it takes 25 years to qualify for loan forgiveness.

Pay As You Earn (PAYE):

With PAYE plans, your payment is 10 percent of your income, but will not exceed what your bill would be under a standard repayment plan. With PAYE, you must make payments for 20 years before you can qualify for loan forgiveness.

Income-Based Repayment plan (IBR):

Income-Based Repayment plan (IBR): With IBR, your payment is capped at 10 percent of your income, and you will make payments for 20 years.

Income-Contingent Repayment plan (ICR):

With ICR, you pay the lesser of 20 percent of your discretionary income or what would you pay with a fixed plan over the course of 12 years.

Under income-driven repayment plans, your payments are based on calculations that take into account several factors, such as your income, marital status and whether you have dependent children. Every year, you need to submit a new application, so if you have fluctuations in income or your family size changes, your payments can increase or decrease, as well.

Law school loan forgiveness

In some circumstances, your loan balance can be forgiven, either through public service or after making regular payments on an income-driven repayment plan.

✤ **Public Service Loan Forgiveness (PSLF):** After making 120 monthly payments, your balance is forgiven as long as you worked for a tax-exempt nonprofit or government organization. For lawyers, this typically includes working as a state prosecutor, public defender or working in a legal aid office for underserved or low-income individuals.

✤ **Income-driven repayment plan forgiveness:** If you are on an income-driven repayment plan, such as REPAYE, after making your payments for the entire repayment period — usually 20 or 25 years — any remaining balance is forgiven. While that can be a huge benefit, it does come with one major caveat: unlike forgiven loans under PSLF, the amount that is eliminated is taxable as income. That can add a big chunk to your bill when your taxes are due.

Pros and cons of income-driven repayment plans

Extended or income-driven repayment plans can significantly reduce your monthly payments. But because you are paying interest for a longer period, you can end up spending **thousands more** over the course of your loan, particularly if you end up paying off your loans before you qualify for loan forgiveness.

The easiest way to grasp the different outcomes is to compare the total repayment costs of each repayment plan. The chart below illustrates how much a borrower with $140,616 in direct federal student loans would pay back in nine government repayment programs (that's the amount of combined undergraduate and law school debt that the New America Foundation estimates law school grads take on).

Monthly payment and total repaid under government repayment plans

Repayment Plan	Monthly payment (first, last)	Repayment period	Protected loan forgiveness	Total amount repaid
Standard	$1,554	10 years	$0	$186,492
Graduated	$888-$2,663	10 years	$0	$198,729
Extended fixed	$897	25 years	$0	$269,234
Extended graduated	$691-$1,360	25 years	$0	$293,053
REPAYE*	$552-$1,800	22 years, 7 months	$0	$285,669
PAYE*	$552-$1,539	20 years	$52,184	$233,194
IBR*	$827-$1,554	15 years, 4 months	$0	$255,692
IBR for new borrowers*	$552-$1,539	20 years	$52,184	$233,194
ICR*	$1,202-$1,733	10 years, 8 months	$0	$193,899

Plans marked with an asterisk are income-driven repayment plans, with monthly payments tied to a percentage of disposable income. Source: **Department of Education repayment estimator.*

The chart above assumes that an attorney has just landed a job out of law school with:

- $25,000 in federal direct subsidized loans taken out to attend a four-year college at a weighted average interest rate of 4.2 percent
- $61,500 in federal direct unsubsidized loans ($20,500 annual limit) taken out to attend three years of law school at a weighted average rate of 5.8 percent
- $54,116 in PLUS loans taken out to pay for the balance of law school at a weighted average rate of 6.8 percent
- Adjusted gross income of $84,000 a year that increases by 5 percent a year

Compare the cost of repaying $140,616 student loan debt under government plans, above, with the chart below.

Monthly payment and total repaid by refinancing high-interest debt

Balance	Loan type	Interest rate	Monthly payment	Total amount repaid
$25,000	Federal direct subsidized loan	4.2%	$256	$30,660
$115,616	Private refinance loan	5.0%	$1,226	$147,154
$140,616	Combined loans	4.86% (weighted average)	$1,482 (combined payments)	$177,814 (both loans)

The chart above breaks down the total repayment cost if you refinanced the higher-interest grad school debt (unsubsidized and PLUS loans) into a 10-year, fixed-rate loan at 5 percent interest, while continuing paying off your $25,000 in federal direct subsidized loans at a rate of 4.2 percent in the standard 10-year repayment plan.

Keep in mind you do not have to refinance your entire loan balance. You can refinance a portion of your debt, particularly your higher interest loans, to save money.

As you can see, the total amount repaid after refinancing higher-interest debt — $177,814 — is less than under any government repayment program. Your interest rate reduction save you about $8,678 compared to the standard 10-year repayment plan.

Factor in the savings from reducing your repayment term, and you'd pay about $107,885 less than if you enrolled in REPAYE.

Your total monthly payments of $1,482 after refinancing your high-interest loan debt would also be $72 a month less than what you'd pay if you kept all of your loans in the standard government repayment plan without an interest rate reduction.

And while your monthly payments would start out lower in any of the government's income-driven repayment plans, they would eventually climb, reaching as much as $1,800 a month under REPAYE. Sign up for the government's graduated repayment plan, and your monthly payment will grow to $2,663 a month before you are through.

Decision time

Alternative repayment plans make sense when you are really struggling to make ends meet — if you're at risk of being unable to pay rent or put gas in your car to get to work, for example. Otherwise, if you can meet all of your financial obligations by minimizing expenses like eating out or gym memberships, the sacrifice may be worth the money you save money in the long run.

When you are first starting out, choosing an extended or income-driven repayment plan can be a way to minimize your payments so you can manage your budget. However, as your income increases, consider paying more than the minimum monthly payment to pay off the loan faster. You'll end up saving yourself thousands in interest payments.

That is a smart way to take advantage of alternative options when you need them early on, then make up for it later as your salary increases.

The Department of Education's Repayment Calculator is a useful tool you can use to see your options and how your payments affect your total repayment. Keep in mind that it can't predict your future income — an important component of income-driven repayment plans. It's most accurate for evaluating your first repayment plan — the longer you've been paying back your loans, the less accurate its projections are. The repayment estimator won't tell you how much you might save by refinancing your student loan debt with a private lender (for more on the repayment estimator's strengths and weaknesses, see our **post on the topic**)

Law school loan refinancing

Depending on the specific loans you took out to pay for law school, you could have debt with interest rates ranging from the low 3s to 10 percent or more. While stretching your payments out in a government repayment plan can lower your monthly payments, it won't get you a lower interest rate.

The only way to get a lower interest rate is to refinance your loans with a private lender. Refinancing can reduce the total amount repaid, your monthly payment, or both.

Refinancing can be a smart decision if your income and credit score qualify you for a more competitive interest rate. If you can afford the payments on a shorter repayment period, you can get a much lower rate and save a substantial amount of money.

However, refinancing your government loans with a private lender is not for everyone. If you intend to work in the public or nonprofit sectors, you can qualify for loan forgiveness. If you refinanced your federal loans with a private lender to get a lower payment or interest rate, you would forfeit the ability to have your loans eliminated. Some private lenders also do not have deferment or forbearance options in case of economic hardship, so keep that in mind if you are in a state with a volatile legal field.

> **“ The only way to get a lower interest rate is to refinance your loans with a private lender ”**

Additionally, if you are struggling to pass the bar or end up taking a job that pays less than you expected as a law school graduate, refinancing may not make sense. Instead, opting for a federal income-driven repayment option can help reduce your payments; after making the qualifying payments for 10, 20 or 25 years, you may have the remaining balance forgiven.

Paying for law school

Dealing with law school debt can be overwhelming and frustrating. With student loans that can easily reach into the six-figures, your payments can outpace your rent. While cutting your monthly payment down or lowering your interest rate may be tempting, it is essential you consider your long-term goals and career interests. If you can find an alternative to extended repayment options, you can save yourself a lot of money over the course of your loans.

Whether extended payment, income-driven repayment or private refinancing is right for you depends on your own unique circumstances.

Thank you!

We'd love to hear from you!

Credible is here to help you with all your student loans needs. See how much you can save by refinancing your student loans with Credible at **www.credible.com**! If you have any questions about refinancing, or you just want to chat about what options are available to you, please contact us directly at **866.540.6005** or email us at **support@credible.com**.

We look forward to hearing from you!

—The Credible Team

About Credible

Credible's founding principle is to provide borrowers the level of transparency they deserve.

As a multi-lender marketplace that allows borrowers to receive competitive loan offers from its vetted lenders, Credible empowers consumers to take control of their student loans. Borrowers can fill out one form, then receive and compare personalized offers from numerous lenders and choose which best serves their individual needs.

Credible is fiercely independent and committed to delivering fair and unbiased solutions in student lending.

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