

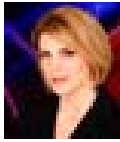
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# Money: Student Loan Repayment

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President Barack Obama outlined what sounded like a great deal for students during his State of the Union address: Pay only what you can afford, based on your income -- and after a certain period of time, have your balance forgiven, tax free. But, as with everything, there's a catch.

College costs are going crazy.

"Even with financial aid, you're talking \$35,000 to \$40,000 a year," said American University senior Peter Sarasohn.

It's not unusual for today's students to graduate owing more than their starting salaries. That's why President Obama wants to make loan repayment easier.

"In the United States of America, no one should go broke because they chose to go to college!" said Obama to applause during his first State of the Union address on Wednesday, January 27, 2010.

The proposal is an expansion of the Income Based Repayment Plan that became available July 1, 2009 as part of the College Cost Reduction and Access Act of 2007.

The current program caps monthly payments at 15 percent of discretionary income, defined as your adjusted gross income greater than 150 percent of the federal poverty level. (\$16,249 for 2009)

The expanded plan would cap monthly payments at 10 percent-- a savings of hundreds of dollars a month over standard payment plans.

As long as you've paid on time, the balance would be forgiven after 20 years. The current plan forgives remaining debt after 25 years. The remainder does become taxable income, though.

There's an even bigger bonus for those who pursue careers in public service. Those workers can have their balance forgiven after just 10 years, and is not taxable.

"I think that makes sense," says Rachel Hoopes, a sophomore studying education. "Just to make it easier, I think that would help everyone."

If passed in the President's FY2011 budget bill, the new program could take effect in October. It only applies to graduates' Federal student loans.

The CATO Institute argues that the tilt toward public jobs is unnecessary.

"When you look at wages and benefits compared to the equivalent job in the private sector, they're doing far better with much greater job security," says policy analyst Adam Schaefer.

Not in every case. Mark Kantrowitz of FinAid.org uses the example of a law school student who wants to become a public defender. He or she is likely to earn a starting salary of \$40,000 year with a \$120,000 student loan burden. Under the new proposal, that student would pay just \$114.63 a month, as opposed to a standard 10-year student loan payment of \$460.32 a month.

Kantrowitz believes the Income Based Repayment Plan "is not necessarily an incentive to public service, it simply removes the impediment to public service."

Still, there's no such thing as free money. Projections range from \$2 billion to \$7 billion for the expanded program.

Schaefer says that will come out of the wallets of every taxpayer.

"Not everyone is going to go to college, not everyone is going to gain anything from going to college, and there's no reason we should have a regressive tax on plumbers and tradespeople that didn't go to college to fund other people's education," said Schaefer.

There is also an interesting argument going on -- that college tuition is experiencing a bubble, much like we saw in housing. The more loans that are available, the more money students have to spend. That, the theory goes, leads colleges to raise tuition and buy for all sorts of things that don't go directly to education.

"It's comparable to rearranging the furniture on the Titanic," says Daniel Bennett of the Center for College Affordability. "It makes it look nicer but it doesn't take care of the problem."

Bennett agrees with President Obama's statement that colleges need to do their part to bring down cost.

As for Rachel Hoopes, she's glad she'll be able to take a job as a high school teacher, instead of feeling financial pressure to become a high-paid engineer.

"As long as I do what I love to do, then that's okay," she said.

Many argue it would even better if college degrees were affordable again, without a raft of financial aid.

#### **LINKS FOR MORE INFORMATION:**

- <http://www.finaid.org/loans/ibr.phtml>
- <http://www.finaid.org/calculators/ibr.phtml>