
Chapter 9: Financing Your Legal Education

■ The Cost of a Legal Education

Legal education is an investment. It can be an expensive one. The cost of a three-year law school education could exceed \$150,000. Tuition alone can range from a few thousand dollars to more than \$50,000 a year. When calculating the total cost of attending law school, you also have to include the cost of housing, food, books, transportation, and personal expenses. Law schools will determine the student expense budget for you. Today, approximately 80 percent of law school students rely on education loans as their primary but not exclusive source of financial aid for law school. Loans from governmental and private sources at low and moderate interest rates may be available to qualified students.

Financial Aid: A Student's Responsibility

The first step in applying for financial aid for law school is to complete the Free Application for Federal Student Aid (FAFSA), available online at fafsa.ed.gov, from your college or university financial aid office, or from the law school to which you are applying. This is a free form and you need not pay to file it. The FAFSA is a need analysis tool developed by the US Government, Department of Education. It asks for information about your income, assets, and other financial resources. The information you provide on the financial aid form will be used to compute how much you (and your spouse) should contribute toward your legal education. Most schools require copies of your actual tax return to verify financial information, so be sure to keep a photocopy for your files; some schools also require students to fill out a supplemental form to be considered for institutional aid. Once the analysis is completed, the financial aid officer at the school can determine what types of aid you will need—such as scholarships, grants, loans, or work-study—to pay your law school expenses.

A brochure published by the Law School Admission Council, *Financial Aid for Law School: A Preliminary Guide*, is available at most law school financial aid offices and at www.LSAC.org. For complete and individualized information on financing your law school education, contact the financial aid office at the individual law school(s) to which you apply.

Determining How You Will Pay

There are three basic types of financial aid:

- **Scholarships, Grants, and Fellowships**—Depending on the school's policies, these types of awards—which do not have to be repaid—are given according to need or merit. Their availability is quite limited, and they are usually awarded by the law schools themselves. The law schools' admission and financial aid offices can give you more information.
- **Federal Work Study**—Federal Work Study is a program that provides funding for students to work part time during the school year and full time during the summer months. Students sometimes work on campus in a variety of settings or in off-campus nonprofit agencies. Additional information is available from any law school financial aid office. Not all law schools participate in the Federal Work-Study Program.
- **Loans**—Education loans may be awarded directly by the school or through other private agencies. The largest student loan programs are funded or guaranteed by the federal government. Some are awarded on a need basis, while others are not need based. Federal student loans are usually offered at interest rates lower than consumer loans, and the repayment of principal and interest usually begins after the end of your educational program. Private education loans are offered at market rates. Private loans are approved on the basis of your credit.

Debt Management

An education loan is a serious financial obligation that must be repaid. Dealing with this long-term financial obligation can be made easier through the implementation of sound debt management practices—both while you are in law school and following your graduation.

Credit History

Lenders will analyze your credit report before they approve the loan. Most offer prequalification services on the Internet or by phone. If you have a poor credit history, you may be denied a loan. If there is a mistake on your credit report—and there are often mistakes—you will want adequate time to correct the error. It would be wise to clear up errors or other discrepancies before you apply for a private loan.

You may want to obtain a copy of your credit report so that you can track and clear up any problems. You can order your free copy from one or all of the major credit reporting agencies by calling 1.877.322.8228, or go to www.annualcreditreport.com. You may also mail a request to Annual Credit Report Request Service, PO Box 105281, Atlanta, GA 30348-5281.

Living on the Student Expense Budget

While loans may be available to students with good credit histories, the question of how much to borrow is often asked. The maxim "Live like a student now or you will live like a student later" is a good one to remember. Although students may borrow up to the limit of the school-determined student expense budget, loans do have to be paid back. Consider tracking your current spending habits and comparing them to the budgets at schools of your choice. Look into having a roommate. Learn to cook; food expenses are often budget-busters. For example, \$5 a day for lunch totals \$25 weekly, \$100 monthly, and so on. If you have to borrow to pay for lunch, the real cost is in the neighborhood of \$8 a day. Bring a lunch rather than buying one. While law school may be an excellent long-term investment, paying loans in the short term can be a real burden. Remember, not all lawyers will earn the highest reported salaries.

If possible, you should pay off any outstanding consumer debt before entering law school. Student expense budgets do not allow the use of education loan funds to pay for prior consumer debt. Entering law school with no credit card debt will make living on your budget easier. Most federal and private education loans allow you to defer payment while you attend law school at least half time. Interest on subsidized

loans does not accrue, while unsubsidized and private loans accrue interest while you are in law school. Be sure to inform your prior lenders that you have returned to school.

Loan Default or Delinquency

These two terms are often confused: neither is good. Delinquency occurs when you have begun repayment on a loan or other obligation and have missed one or more payment dates; default generally occurs when a delinquency goes beyond 150–180 days.

Delinquencies appear on credit records and may hinder you from qualifying for an education loan that requires a credit check. Defaults are even more serious and are likely to prevent you from receiving federal financial aid as well as disqualifying you for most other education loans. If you are in a default status, you must take steps to change your status if you wish to apply for a federally guaranteed loan for law school. Contact the servicer of your loan(s) for more information on this subject.

Planning Ahead: Repayment of Your Loan

Your income after law school is an important factor in determining what constitutes manageable payments on your education loans. Although it may be difficult to predict what kind of job you will get (or want) after law school, or exactly what level of salary you will receive, it is important that you make some assessment of your goals for the purpose of sound debt management. In addition to assessing expected income, you must also create a realistic picture of how much you can afford to pay back on a monthly basis while maintaining the lifestyle that you desire. You may have to adjust your thinking about how quickly you can pay your loans back, or how much money you can afford to borrow, or just how extravagantly you expect to live in the years following your graduation from law school.

Your education loan debts represent a serious financial commitment that must be repaid. A default on any loan engenders serious consequences, including possible legal action against you by the lender or the government, or both.

Law school graduate debt of \$100,000 amounts to almost \$1,187 a month on a standard repayment plan. Most lenders offer graduated and income-sensitive repayment plans that lower monthly payment amounts but increase the number of years of repayment. Federal Loan Consolidation allows students to repay their Federal Stafford, Ford Federal Direct Loans, and Graduate PLUS loans on an extended repayment schedule, lasting up to 30 years. Stafford and Direct Loan lenders also now offer income-based repayment options (IBR). This repayment will allow borrowers to pay a small amount monthly toward their loans, depending on income and the loan amounts. There also may be forgiveness after 25 years, and federal loan forgiveness for government and nonprofit employees after 10 years. The federal government (www.ed.gov), and many lenders have websites with loan repayment and budget calculators.

Strategies for Graduates Seeking Public Interest Careers

Students who seek to work in public service or the public interest sector of the profession face special challenges in financing their legal educations. Salaries for such jobs are comparatively low. Students graduating from law school with the average amount of indebtedness may find that the average entry-level public service or public interest salary (\$44,000 for 2008 graduates) will not provide the resources needed to repay their law school loans and cover their basic living expenses.

Students can employ a number of strategies to make it easier (or possible) to pursue a career in the public service or interest sectors. First, students can borrow less during law school (e.g., attend a lower tuition institution; follow some of the debt management strategies mentioned in this chapter). Students may also take advantage of programs developed at some law schools to relieve the debt burden for those interested in public interest careers, including fellowships, scholarships, and loan repayment assistance programs (LRAPs). LRAPs provide financial assistance to law school graduates working in the public interest sector, government, or other lower-paying legal fields. In most cases, this aid is given to graduates in the form of a forgivable loan to help them repay their annual educational debt. Upon completion of the required service obligation, schools will forgive or cancel these loans for program participants.

The number of law schools sponsoring LRAPs is limited: as of December 2006, approximately 106 law schools sponsored such programs. The funding for these programs is limited, so that most schools are unable to provide assistance to all applicants.

LRAPs are also administered by state bar foundations, public interest legal employers, and federal and state governments to assist law graduates in pursuing and remaining in public interest jobs. The federal government offers some options to assist graduates seeking legal careers in public service, including the new Income-Based Repayment (IBR) option for federal loan repayment and the Federal Loan Forgiveness Program, both beginning in 2009. The IBR will allow any federal education loan borrower the opportunity to make low monthly payments on their federal loans. The payments are equal to 15 percent of the difference between the borrower's earnings and 150 percent of the federal poverty level. The Federal Government Loan Forgiveness Program allows borrowers who work in government or nonprofits the opportunity to make payments under the IBR, then have their outstanding balances forgiven after 120 eligible payments. Please check with your school or directly with the Department of Education for details on these new programs.

For more information about loan repayment assistance programs or the income-based repayment program, visit www.abalegalservices.org/lrap or www.equaljusticeworks.org.

*All figures and calculations are based on current interest rates, loan terms, and fees, and are subject to change.