Forgiving Loans of Those in Public Service Grows Popular, but Programs Are Unproven

By KELLY FIELD

Andrea A. Carlino graduated from law school in 2004 with $120,000 in debt. Three years later, she earns $54,000 a year trying felony cases for the Queens district attorney's office. She loves her job and willingly makes some sacrifices for it — like living at home with her parents on Long Island and commuting to Queens in her 1994 Buick Skylark.

But Ms. Carlino, 28, worries that she and her fiancé, who has student loans of his own, will be unable to afford a home on their combined salary of roughly $110,000. If she had to, she says, she would reluctantly leave her public-sector job for a more lucrative position at a New York City law firm.

As the cost of college continues to rise, more and more graduates are entering public-service careers like nursing, teaching, and social work with unmanageable levels of debt. Many will struggle to repay their student loans while meeting their own basic needs.

The problem is especially acute in medicine and law, where many students graduate with more than $100,000 in debt and where debt-to-income ratios are at their most extreme. According to the American Bar Association, public law-school graduates owed $54,509 on average in 2006, while private law-school graduates owed $83,181. That was on top of an average of $20,000 in undergraduate debt.

While that debt level may be manageable for lawyers at private firms, where the median starting salary was more than $105,000 last year, it can be a huge burden for lawyers in public-interest fields, where median starting salaries ranged from $36,000 to $46,374. Many will leave their jobs after two to four years, just when they have gained some expertise.

In an effort to reverse this trend, Congress recently created a new loan-forgiveness program for low-income public-service employees. Under the program, the federal government will forgive the remaining debt of borrowers who spend 10 years working for a government or tax-exempt organization and make monthly payments on their loans.

The Government Accountability Office estimates that some 50,000 borrowers will qualify for loan forgiveness each year.

Supporters of the new program say it will help public-service employers recruit and retain talented graduates. Heather Wells Jarvis, law-school-advocacy coordinator for Equal Justice Works, a nonprofit group that promotes public service for lawyers, says that when she told law students about the loan-forgiveness program at a recent career fair, "they were thrilled."
"Some of them called their parents to tell them that their decision was vindicated — they were not throwing their future to the wolves," she said. "The U.S. government had affirmed that their decision was a good one."

But some skeptics wonder whether loan-forgiveness programs are really the best way to steer students toward public-interest careers. They say more research should be conducted on the programs' effectiveness before state and federal governments expand them further.

"It's not clear that loan-forgiveness programs change students' behavior," said Jamie P. Merisotis, founding president of the Institute for Higher Education Policy, a nonpartisan research-and-policy center in Washington. "I'm not saying they don't, but there is no evidence they do."

**Programs Proliferate**

Despite being unproven, the programs remain popular with both state and federal lawmakers. As of 2001, 43 states offered some form of loan forgiveness or loan repayment, according to a report by the American Institutes for Research. While there have been no official counts since then, experts believe there are even more programs in existence today.

"These things keep proliferating, and we don't know if they work," said Rita Kirshstein, a managing director at the American Institutes for Research and lead author of the 2001 study. That study concluded that no reliable data show that loan-forgiveness programs help remedy labor shortages.

Twenty-three states now offer loan repayment for the legal professions, though the average amount forgiven is only $3,000 a year, according to Kelly Carmody, an Arizona-based consultant who tracks the programs. She said she was not aware of any formal program evaluations.

Mr. Merisotis says one reason the research on loan programs has been so scant is because of its difficulty. To determine whether students choose majors or professions based on the prospect of loan forgiveness, researchers would have to follow them over the course of their college careers. To measure whether graduates remain in the professions, researchers would have to track them even longer.

Federal loan-forgiveness programs have been around since 1958, when Congress created a program for public-school teachers. Since then, Congress has gradually expanded the list of eligible professions, adding members of the armed forces, Peace Corp volunteers, law-enforcement officers, nurses and medical technicians, and full-time employees of nonprofit child-and-family-services agencies. Over the last 50 years, the Education Department has forgiven some $1.5-billion in Perkins loans. In the last nine, it has forgiven $158-million in Stafford loans awarded to teachers.

Other agencies also administer loan-forgiveness programs. In exchange for a two- to three-year commitment, the National Institutes of Health will repay up to $35,000 a year of researchers' educational debt. The Health Resources and Services Administration will provide up to $50,000 in loan forgiveness to health professionals who commit to working in underserved communities through the National Health Service Corps.

None of the agencies track loan-forgiveness recipients to determine how long they stay in their jobs, though a 2000 survey of alumni of the health-services corps found that 70 percent remained in underserved communities for varying lengths of time after fulfilling their service commitment.

Congress created the newest loan-forgiveness program in budget-reconciliation legislation that the president signed into law in September. Only direct loans are eligible for the discharge, but borrowers in the guaranteed-loan program can consolidate into direct lending to get the benefit.

Philip G. Schrag, a Georgetown University law professor and a leading proponent of the legislation, calculates that the program will save public-interest lawyers thousands of dollars in principal and interest.
Under a standard 10-year repayment plan, a borrower with $100,000 in debt at a 6.8-percent interest rate would repay $138,000. But a borrower who qualified for income-based or income-contingent repayment and worked in a public-service field for 10 years could end up paying much less, Mr. Schrag says. Under income-based and income-contingent repayment plans, low-income borrowers repay their loans as a percentage of their income over an extended period of time.

Take, for example, a public-interest lawyer with a starting salary of $35,000, annual pay raises of 3 percent, and $100,000 in debt at 6.8 percent. Over 10 years of employment, he could pay back $33,850 of his loan under an income-based plan and have $134,150 forgiven. A similar borrower with a starting salary of $55,000 would repay $72,715 have $56,019 forgiven, Mr. Schrag estimates.

Ms. Carlino says the loan forgiveness would make a huge difference for public prosecutors like her. She says she has seen too many of her colleagues leave the district attorney's office for financial reasons, only to return after finding themselves miserable in firm work. She calls them "boomerangs."

"There is a huge population that hopes that this makes it possible to have a quality of life and still do the work that makes us happy," she says.