# TAKE CHARGE OF LOAN REPAYMENT!

Strategies for Managing Your Debt Successfully

Spring 2013

### Your Action Plan

4 Steps

- 1. Take stock of your loan portfolio
- 2. Determine when repayment begins
- Pick your repayment plan
- 4. Prepare for contingencies

# Step 1

# Take stock of your loan portfolio

## What do you need to know?

### For each loan in your portfolio:

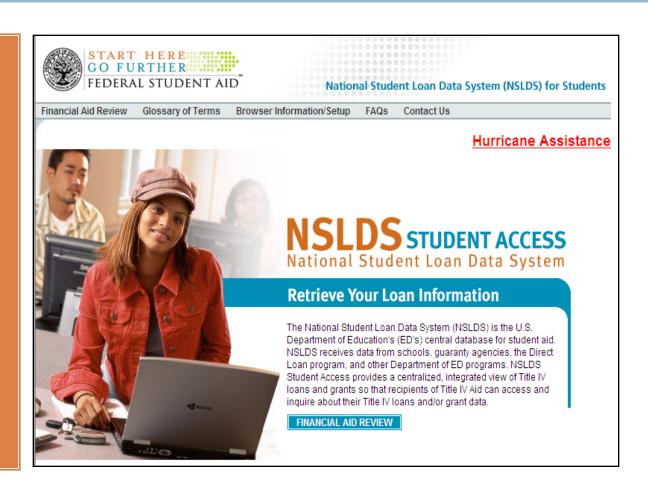
- Type of loan
- Interest rate
- Amount owed
- Who to repay

# NSLDS.ed.gov

### A Useful Resource

To access, enter:

- □ SSN
- First two lettersof last name
- Birthdate
- Dept. of Ed PIN



# Who do you repay?

### You should know:

- Roles of lender/holder and servicer
  - You will be working with the SERVICER
- How to contact them
- Value of NSLDS

# How much do you owe?

Sample Case				
Amount borrowed in law school	\$145,500			
Estimated capitalized interest	\$20,500			
Estimated total debt at repayment	\$166,000			
Assumptions: DSL/UDSL interest rate = 6.8% PLUS interest rate = 7.9%				

# Loan Portfolio Chart Sample Worksheet

Loan Type	Interest Rate	Lender	Servicer	Amount Owed
Direct Stafford	6.8%	U.S. Dept. of Education	( )	\$
Direct Grad PLUS	7.9%	U.S. Dept. of Education	( )	\$

# Step 2

Determine when repayment begins

# Timing is complicated!

# Loans with GRACE PERIOD

- Automatic benefit
- Grace period begins when you drop below ½-time enrollment
- Repayment begins after grace period
- Interest is subsidized on subsidized loans in grace

# Loans without GRACE PERIOD

- Enter repayment when funds are disbursed
- Eligible for in-school deferment while enrolled
- Repayment resumes after deferment

# What loans have a grace period?

# Loans with GRACE PERIOD

- Stafford = 6 months
- □ Perkins = 9 months
- Private = depends

# Loans without GRACE PERIOD

- Consolidation
- Grad PLUS
  - Grad PLUS Loans first disbursed on/after 7/1/2008 have an automatic 6-month post-enrollment deferment

## When repayment begins ...

### You must:

Start making payments,

OR

Postpone repayment.

## Action is required!

# Postponing Repayment

### Deferment

Interest is subsidized on subsidized loans;
 accrues on unsubsidized loans

### Forbearance

Interest accrues on ALL loans

# Should contact servicer and explain why payment relief is needed

# Repayment Timetable

Year 1 (Class of 2013)

Loan	Degree	Grace Period	Payment Start Date	Action Needed
Direct Stafford	Law	6 months	≈ 12/1/2013	Select payment plan near end of grace period
Direct Grad PLUS	Law	none	≈ 12/1/2013	Verify post-enrollment deferment will be applied automatically after graduation

# Step 3

Pick your repayment plan

# Picking Your Plan

### Suggested steps:

- 1. Understand your options
- 2. Define your goals
- 3. Estimate your budget
- 4. Evaluate possible tradeoffs
- 5. Leverage loan repayment flexibility
- 6. Pick your plan

# 17 Picking Your Plan

Understanding your options

# Federal Student Loan Repayment Options

### Stafford, Grad PLUS, Consolidation:

- Standard (Fixed) Repayment
- Graduated Repayment
- Extended Repayment
- Income-Sensitive Repayment (FFEL)/ Income-Contingent Repayment (Direct) – (ICR)
- Income-Based Repayment (IBR)
- "Pay As You Earn" Repayment (Direct) (PAYE)

# Loan Repayment Options

Stafford, PLUS and Consolidation Loans

Options	Payment Structure	Maximum Payment Period
Standard	Fixed	10 years
Graduated	Tiered	10 years
Extended	Fixed or tiered	25 years
Income Sensitive (FFEL only)	Adjusted annually based on: - Total gross income	15 years
Income-Contingent (ICR) (Direct only)	Adjusted annually based on: - Household AGI - Household size - Total amount of Direct Loans	25 years
Income Based (IBR)	15% of annual "Discretionary Income" Adjusted annually based on: - Household AGI	
Pay As You Earn (PAYE) (Direct only)  10% of annual "Discretionary Income" Adjusted annually based on: - Household AGI - Household size - Poverty guideline - State of residence		20 years

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## Payment Comparisons

\$166,000 Federal Student Loan Debt \$75,000 Household AGI (Household Size = 1)

(Estimates calculated at: StudentAid.gov)

Options	Payment Structure	Maximum Payment Period	Sample Monthly Payment	Payment #	Est. Total Amount Paid
Standard	Fixed	10 years	\$1,966	All (1-120)	\$235,934
Graduated	Graduated	10 years	\$1,364 \$2,949	1-24 99-120	\$249,738
	Fixed	25 years	\$1,221	All (1-300)	\$366,399
Extended	Graduated	25 years	\$1,031 \$1,681	1-24 289-300	\$395,270
ICR	Adjusted annually	25 years	\$1,064 tbd	1-12 13+	tbd
IBR	Adjusted annually	25 years	\$728 tbd	1-12 13+	tbd
PAYE	Adjusted annually	20 years	\$485 tbd	1-12 13+	tbd

## Initial Monthly Payments

### Standard vs. Extended Plans

Total Debt	Standa (10		Extended Plan-Fixed (25 yrs)	
	Rate = 6.8%	Rate = 7.9%	Rate = 6.8%	Rate = 7.9%
\$10,000	\$115	\$121	Not Eligible	Not Eligible
\$25,000	\$288	\$302	Not Eligible	Not Eligible
\$50,000	\$575	\$604	\$347	\$383
\$75,000	\$863	\$906	\$521	\$574
\$100,000	\$1,151	\$1,208	\$694	\$765
\$125,000	\$1,438	\$1,510	\$868	\$957
\$150,000	\$1,726	\$1,812	\$1,041	\$1,148
\$175,000	\$2,014	\$2,114	\$1,215	\$1,339
\$200,000	\$2,302	\$2,416	\$1,388	\$1,530
\$225,000	\$2,589	\$2,718	\$1,562	\$1,722

## IBR and PAYE

Who can benefit?

### **Borrowers:**

- Needing more affordable payments
- With high loan debt relative to income
- Pursuing a public service career

# Pay As You Earn (PAYE)

What is it?

- Enhanced version of current Income-Based Repayment (IBR) plan
- Created by Executive Order on October 26, 2011
- Available to eligible borrowers beginning
   December 21, 2012
- PAYE is a qualifying payment plan for Public Service Loan Forgiveness (PSLF)

### IBR vs. PAYE

### IBR

- Direct and FFEL loans
- Annual amount paid based on 15% of "Discretionary Income"
- Loan cancellation after 25 years

### PAYE

- Direct loans only
- Annual amount paid based on 10% of "Discretionary Income"
- Loan cancellation after20 years
- Must meet two additional eligibility requirements

## PAYE

### Additional Eligibility Requirements

- Must be a "new borrower" on or after
   October 1, 2007 (10/1/2007)
  - No federal loans before 10/1/2007, OR
  - No outstanding balance on an existing federal student loan when you borrowed your first federal student loan on or after 10/1/2007
- Must have had a disbursement of a federal student loan on or after 10/1/2011

## IBR and PAYE

How do you qualify?

To enter IBR/PAYE, you must have:

# PARTIAL FINANCIAL HARDSHIP (PFH)

## What is PFH?

## Partial financial hardship exists when:

Standard 10-year payment \$\$\$\$\$



IBR/PAYE payment \$\$

## IBR and PAYE

How is monthly payment calculated?

# When PFH exists, payment is based on:

- Household AGI
- Household size
- Federal Poverty Guidelines

## "Household AGI"

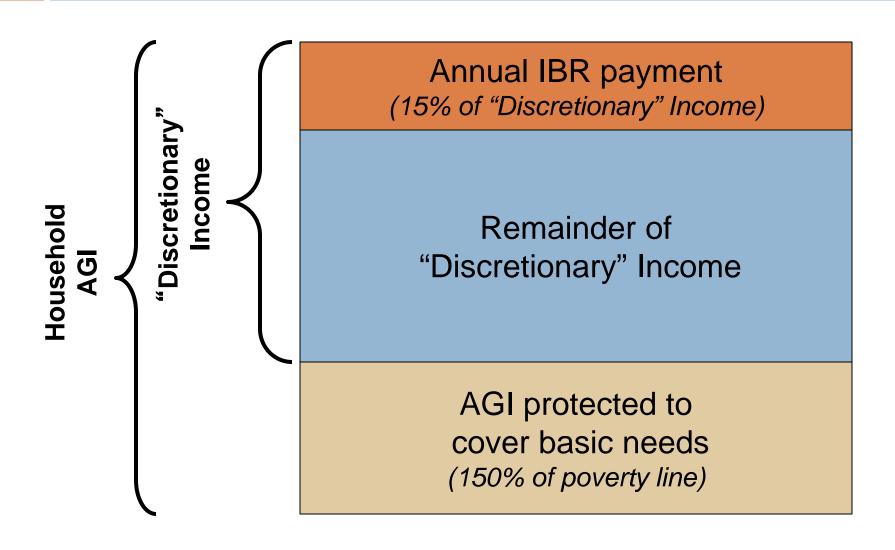
- Your AGI
- Spouse's AGI, only if joint federal tax return was filed

NOTE: Household's eligible debt in PFH determination will include spouse's eligible debt, if spouse's AGI is included

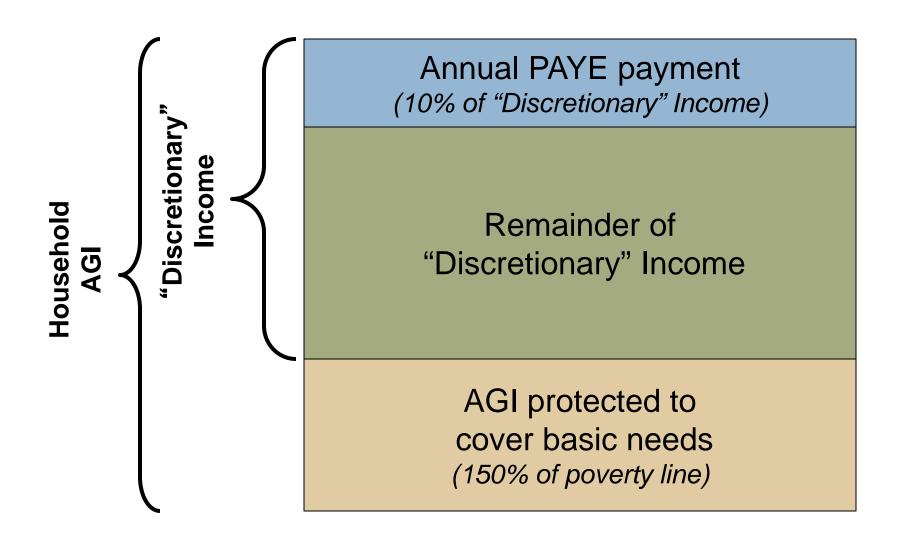
## "Household Size"

- □ You
- Spouse
- Dependent children
- Other dependents in household who receive > 50% support from you

# Annual amount paid in IBR is 15% of "Discretionary" Income



# Annual amount paid in PAYE is 10% of "Discretionary" Income



# Sample IBR Payments

### 15% Formula

Household	2012 Monthly PFH Payment in 48 states		
AGI	HH Size = 1	HH Size = 2	HH Size = 3
\$0	\$0	\$0	\$0
\$10,000	\$0	\$0	\$0
\$20,000	\$41	\$0	\$0
\$30,000	\$166	\$91	\$17
\$40,000	\$291	\$216	\$142
\$50,000	\$416	\$341	\$267
\$60,000	\$541	\$466	\$392
\$70,000	\$666	\$591	\$517
\$80,000	\$791	\$716	\$642
\$90,000	\$916	\$841	\$767
\$100,000	\$1,041	\$966	\$892

# Sample PAYE Payments

### 10% Formula

Household	2012 Monthly PFH Payment in 48 states			
AGI	HH Size = 1	HH Size = 2	HH Size = 3	
\$0	\$0	\$0	\$0	
\$10,000	\$0	\$0	\$0	
\$20,000	\$27	\$0	\$0	
\$30,000	\$110	\$61	\$11	
\$40,000	\$194	\$144	\$95	
\$50,000	\$277	\$228	\$178	
\$60,000	\$360	\$311	\$261	
\$70,000	\$444	\$394	\$345	
\$80,000	\$527	\$478	\$428	
\$90,000	\$610	\$561	\$511	
\$100,000	\$694	\$644	\$595	

## IBR and PAYE

### Negative Amortization

- IBR/PAYE payment can be less than accrued interest
- Unpaid interest accrues
  - Unpaid interest accruing on subsidized
     Direct/Stafford Loan debt is waived by government for up to first 3 consecutive years in IBR or PAYE plan
- Debt increases

## IBR and PAYE

What happens if PFH ends?

- Remain in IBR/PAYE
  - Pay initial original 10-year amortization amount
- Exit IBR/PAYE

## Applying for IBR or PAYE

- Contact current loan servicer to apply for IBR/PAYE
- Complete online application, as directed (every 12 months)
  - Application collects basic demographic information as well as information about household adjusted gross income (AGI) and household size

You must **CONSOLIDATE** any non-DIRECT federal student loans (e.g., FFEL, Perkins) <u>before</u> you can repay that debt using PAYE

Apply at: loanconsolidation.ed.gov

## Prepaying Loans

### Loan Prepayment

- You can make prepayments on your federal student loan(s) without penalty
- Will reduce total interest paid on loan
- Target prepayment at loan(s) with highest cost
- Best to make prepayments online at loan servicer's website

## Step 4

Prepare for contingencies

## What if you can't afford to make your loan payments?

#### Contact your loan servicer immediately!

#### Payment relief may be available, including:

- Deferment
- Forbearance
- Changing payment plans to lower your monthly payment, e.g., IBR or PAYE

#### Traditional Consolidation

#### A Refinancing Option

- You can refinance one or more eligible federal student loans by borrowing a Federal Direct Consolidation Loan
- All federal student loans <u>except</u> the Primary Care Loan (PCL) are eligible for federal loan consolidation
- Only available from Federal Direct Loan
   Program at: LoanConsolidation.ed.gov

#### Reasons to Consolidate

- To simplify repayment by reducing number of loans/lenders/servicers
- To refinance Stafford Loans with variable interest rate(s) into Federal Direct Consolidation Loan with fixed interest rate
- To refinance FFEL loan(s) into Direct Program to make debt eligible for Public Service Loan Forgiveness Program and PAYE
- To refinance Perkins loan(s) into Direct Program to make debt eligible for Public Service Loan Forgiveness Program, IBR and PAYE
- To refinance FFEL Grad PLUS Loan(s) with fixed rate of 8.5% into Federal Direct Consolidation Loan with 8.25% fixed interest rate
- To reduce monthly payment on federal student loan debt
- To rehabilitate defaulted federal student loans

#### Benefit for Public Service

Public Service Loan Forgiveness Program (PSLF)

#### **PSLF**

#### **Key Points**

- DIRECT Loans only
- Work full-time as a paid employee for an eligible public service organization for 10 years (120 months)
- Repay loans using IBR or PAYE
- For more information, go to:
   StudentAid.ed.gov/publicservice

## Taking Charge

Final words ...

#### An "Action Plan"

- 1. Check your loan history at: NSLDS.ed.gov
- 2. Develop your loan timeline
- 3. Select payment plan that's best for you
- 4. Request payment relief when needed

And remember, notify loan servicer(s) of address changes whenever you move

#### For more information ...

- Federal student loan repayment: StudentAid.gov
- Federal Direct Consolidation Loans: LoanConsolidation.ed.gov
- Public service: StudentAid.ed.gov/publicservice
- National Student Loan Data System: NSLDS.ed.gov
- Federal Student Aid PIN: PIN.ed.gov
- Federal loan repayment calculator: StudentAid.gov
- PSLF benefits estimation: FinAid.org/calculators
- Free annual credit report: AnnualCreditReport.com

# YOU CAN TAKE CHARGE!