

Navigating Student Loan Repayment

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Understanding Your Options

We are here to help you understand your repayment options including:

- Determining Your Loan Portfolio
- Types of Student Loans
- Direct Loan Repayment Plans
- Direct Loan Deferments and Forbearances
- Public Loan Forgiveness
- Private Loan Repayment
- Borrower Benefits
- Capitalization of Interest
- Delinquency and Default
- Building Good Credit
- Paying Back Your Loans

Determining Your Loan Portfolio

What type of education loans do you have?

You may have one, some, or all of the following:

- Stafford Loans
- Graduate PLUS Loans
- Private Loans
- Perkins Loans
- Consolidation Loans from prior degrees

Determining Your Loan Portfolio

Who is the lender or service provider for each of your student loans?

Your loans may fall into one or more of the following categories:

- Originated and serviced by the original lender
- Originated by a lender but serviced by another entity
- Originated by a lender but sold in the secondary market
- Originated by a lender but sold to the Department of Education (DOE)
- Originated directly by the federal government

Note: *Terms of your loan(s), as specified in your promissory note(s), will not change if sold or transferred to another lender*

Determining Your Loan Portfolio

Where are my loans?

Ways to assist you to identify all your loans:

- Mail and E-Mail correspondences – Open and read them!
- National Student Loan Database System (NSLDS): www.nslds.ed.gov
 - Provides data on your Direct student loans: Direct Stafford, Direct Grad PLUS, Direct Consolidation or Perkins Loans.
- Lender specific websites
 - Log in using borrower specified username and password
- Financial Aid Office

Types of Student Loans

Stafford Loans

- Loan Types:
 - **Subsidized**
 - Need-based
 - Accruing interest paid by the government while in school, grace period and during eligible deferment periods
 - **Unsubsidized**
 - Not need-based
 - Accruing interest paid by borrower or capitalized at repayment
- Repayment Start Date: 6 months after you graduate, leave school, or drop to less than half-time status
- Repayment Term: Up to 10 years (*up to 25 years for federal loan debts over \$30,000*)
- Interest rates:
 - Loans disbursed prior to July 1, 2006: Variable interest rate and capped at 8.25%. Rate changes every July 1 and is based on the 91-Day Treasury Bill plus 2.70%.
 - Loans first disbursed on or after July 1, 2006: Fixed rate at 6.8%.

Types of Student Loans

Graduate PLUS Loan

- Not need-based
- Interest accrues while in school and interest paid by borrower or capitalized at repayment
- Fixed interest rate: 7.9%
- Repayment Start Date:
 - Loans disbursed prior to July 1, 2008: Immediately upon graduation. Borrower may qualify for six month lender forbearance
 - Loans first disbursed on or after July 1, 2008: Borrower eligible for a six month post enrollment deferment; lender may/may not automatically grant
- Up to 10 year repayment term (*up to 25 years for federal loan debts over \$30,000*)
- No pre-payment penalties

Note: *If you process a forbearance on a Graduate PLUS Loan right after graduation, any accrued interest will capitalize twice. Once when the forbearance is processed and once again when you actually begin repayment on the loan.*

Types of Student Loans

Direct Consolidation Loan

- Fixed interest rate
 - Weighted average of underlying loans
- No grace period; repayment begins immediately upon graduation
- Up to a 30 year repayment term depending on debt levels
- No pre-payment penalties
- Can only consolidate federal loan debt under the Direct Loan program
- Stafford loans first disbursed on or after July 1, 2006 have a fixed rate of 6.8% and do not necessarily need to be consolidated
- May lose money saving benefits offered on lender owned Stafford or Graduate PLUS Loans
- Not a refinance tool – used for debt management

Types of Student Loans

Perkins Loan

- Need-based; accruing interest paid by the government while the borrower is in school and in a grace period
- Program managed by participating schools
- Not all borrowers/schools eligible to participate
- Fixed interest rate: 5%
- Repayment begins nine months after you graduate, leave school, or drop to less than half-time status
- 10 year repayment term

Types of Student Loans

Private Loans

- Terms vary amongst lenders
 - Review promissory note for specific terms
- Accrued interest paid by borrower or capitalized at repayment
- Repayment typically begins 6 or 9 months after you graduate, leave school, or drop to less than half-time status.
- Repayment terms vary; most allow up to 20 years
- Interest rate may be fixed or variable

Important facts:

- *Private Loans cannot be consolidated under the Direct Consolidation Loan Program.*
- *A limited number of lenders currently offer private consolidation loans*
- *Repayment/Deferment/Forbearance options are limited – Important to check with lender on eligibility*

Direct Loan Repayment Plans

- Standard (Level)
- Graduated
- Extended
- Income-Sensitive
- Income-Based
- Consolidation



Note: You can choose a plan other than Standard (Level) before you enter repayment or at any time later in the life of the loan. Keep in mind - once you choose another plan, you may not change plans again for 12 months

Direct Loan Repayment Plans

Standard (Level) Repayment

- Plan requires equal monthly payments that include principal and interest

Advantages

- Same payment amount for the entire repayment term (10 years)
- Typically, the lowest overall cost
- Automatically enrolled unless specifically request another plan
- No penalty for early payoff

Disadvantages

- Monthly payment amounts may be more than some borrowers can afford

Direct Loan Repayment Plans

Standard (Level) Repayment Example

Stafford Loan Amount	Interest Rate	Monthly Payment	Overall Interest	Total Payments
\$41,000	6.8%	\$472	\$15,620	\$56,620
GRAD PLUS Loan Amount	Interest Rate	Monthly Payment	Overall Interest	Total Payments
\$30,000	7.9%	\$362	\$13,488	\$43,488

Assumptions

- Monthly payment amount calculated by product type
- 10 year repayment term
- "Overall Interest" does not include interest accrued while in school

Direct Loan Repayment Plans

Graduated Repayment

- Plan offers lower, more affordable payments to start with

Advantages

- Make lower monthly payments for the first 2 years
- Modest payment increase every 2 years
(not more than 3x greater the current payment)
- Ability to anticipate when your loan payment will increase
- No penalty for early payoff

Disadvantages

- Pay more interest over the life of the loan
- Payment cannot be less than monthly interest amount

Direct Loan Repayment Plans

Graduated Repayment Example

Stafford Loan Amount	Interest Rate	Monthly Payment	Overall Interest	Total Payments
\$41,000	6.8%	\$324 (1-2 yr) \$479 (5-6 yr) \$708 (9-10 yr)	\$18,678	\$59,678
GRAD PLUS Loan Amount	Interest Rate	Monthly Payment	Overall Interest	Total Payments
\$30,000	7.9%	\$253 (1-2 yr) \$371 (5-6 yr) \$544 (9-10 yr)	\$16,165	\$46,165

Assumptions

- Monthly payment amount calculated by product type
- 10 year repayment term, 2 years worth of interest only payments, then regular standard repayment
- "Overall Interest" does not include interest accrued while in school

Direct Loan Repayment Plans

Extended Repayment

- This plan extends the repayment term for up to 25 years if your federal loans total more than \$30,000

Advantages

- Low fixed or interest only payments
- Choice of Standard or Graduated repayment plans
- No penalty for early payoff

Disadvantages

- Pay more interest over the life of the loan

Direct Loan Repayment Plans

Extended Repayment Example

Stafford Loan Amount	Interest Rate	Monthly Payment	Overall Interest	Total Payments
\$41,000	6.8%	\$285	\$44,371	\$85,371
GRAD PLUS Loan Amount	Interest Rate	Monthly Payment	Overall Interest	Total Payments
\$30,000	7.9%	\$230	\$38,868	\$68,868

Assumptions

- Monthly payment amount calculated by product type
- 25 year repayment term; Standard (Level) repayment
- "Overall Interest" does not include interest accrued while in school

Direct Loan Repayment Plans

Income-Sensitive Repayment

- The plan schedules a monthly payment amount based on your income. Plan is reviewed and adjusted annually.

Advantages

- Payment calculated between 4% and 25% of your income
- No penalty for early payoff

Disadvantages

- Pay more interest over the life of the loan
- Required to re-apply annually to continue in the plan
- Payment cannot be less than monthly interest amount

- Income Sensitive Repayment Calculator: www.finaid.org/calculators

Direct Loan Repayment Plans

Income-Based Repayment

For repayment of Stafford, Graduate PLUS, and Direct Consolidation Loans if experiencing partial financial hardship

- “Partial Financial Hardship” exists when your monthly payment calculated using the 10 year standard repayment plan is greater than what your payment would be using 10% of your annual AGI above 150% of the poverty line for your family size.
- Monthly payment can allow for negative amortization
(*less than the monthly interest that accrues*)
- Includes a limited interest subsidy benefit
 - If your payments don't cover the interest that accrues, the government pays or waives the unpaid interest on subsidized Stafford loans for the first three years of income-based repayment.
- Any outstanding eligible loan balance is cancelled after 20 years
 - May be a taxable event
- IBR repayment calculators
 - www.finaid.org/calculators
 - www.ibrinfo.org (*also has Department of Education Q&A document*)

Direct Loan Repayment Plans

Income Based Repayment Example

Total Direct Loan Amount	Adjusted Gross Income	Interest Rate*	IBR Monthly Payment	Overall Interest	Total Payments
\$71,000	\$60,000	7.26%	\$546 (1 st year) \$803 (10 th year) \$834 (12 th year)	\$45,861	\$116,861

Assumptions

- Loan amount includes Direct Stafford: \$41,000 and Direct Graduate PLUS: \$30,000
- 14 years to total payoff
- “Adjusted Gross Income” assumes 4% annual increase
- “Overall Interest” does not include interest accrued while in school

Direct Loan Repayment Plans

Direct Consolidation

- Loan allows borrower to combine one or more of their eligible Direct education loans into one new loan; may be able to extend repayment term up to 30 years
- Interest Rate:
 - Converts variable interest rate loans to a fixed rate for the life of the loan
 - To determine, a weighted-average is computed based on current interest rates of loans to be consolidated
 - Rate is calculated to the nearest 1/8%; capped at 8.25%

Advantages

- Bring together loans located at multiple loan servicers
- May qualify for special consolidation program with a 0.25% rate reduction if:
 - Application received prior to June 30, 2012
 - Have at least one Federal loan currently owned by a private lender
 - Loans must be in grace or repayment status

Disadvantages

- Pay more interest over the life of the loan
- May lose borrower saving benefits on Federal loans

Direct Loan Repayment Plans

Weighted Average Example

What is Weighted Average?

$$\$30,000 \times 7.9\% = \$2,370$$

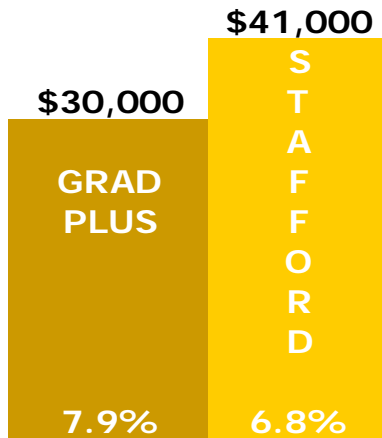
$$\$41,000 \times 6.8\% = \$2,788$$

$$\$71,000 \qquad \qquad \qquad \$5,158$$

$$\$5,158 \div \$71,000 = 0.072647887$$

or 7.26%

7.26% rounded up to the
nearest 1/8 % = 7.385%



Direct Loan Repayment Plans

Consolidation Repayment Example

Consolidation Loan Amount	Interest Rate	Monthly Payment	Overall Interest	Total Payments
\$71,000	7.38%	\$490	\$105,536	\$176,536

Assumptions

- Uses weighted average interest rate rounded to the nearest 1/8%.
- 30 year repayment term
- “Overall Interest” does not include interest accrued while in school

Direct Loan Repayment Plans

Repayment Comparison (figures from previous slides)

	Interest Rate	Monthly Payment	Overall Interest	Total Payments
Consolidation Repayment – 30 yrs	7.38%	\$490	\$105,536	\$176,536
Income Based Repayment – 20 yrs	7.26%	\$546 (1 st year) \$803 (10 th year) \$834 (12 th year)	\$45,861	\$116,861
Extended Repayment – 25 yrs	6.8%; 7.9%	\$515	\$83,239	\$154,239
Graduated Repayment – 10 yrs	6.8%; 7.9%	\$577; adjusting to \$1,252	\$34,843	\$105,843
Standard Repayment – 10 yrs	6.8%; 7.9%	\$834	\$29,108	\$100,108

Direct Loan Deferments and Forbearances

Deferments

- A deferment allows you to postpone payment of the principal and/or interest on a student loan after the repayment period begins.
- If you have unsubsidized loans, interest will continue to accrue during a deferment and be capitalized (added to the principal) when you begin repaying, unless you make interest payments during the deferment.
- You must meet certain criteria to qualify for a deferment
- Most common deferments:
 - In-school: Granted without time limit
 - Unemployment: Granted up to 36 months
 - Economic Hardship: Granted up to 36 months
 - Military Service: During active duty or 13 months following conclusion of qualifying active duty service
Member of Nation Guard or other reserve military and ordered to active duty

Loan Deferments and Forbearances

Forbearances

- A forbearance is an agreement with your lender that allows you to postpone student loan payments for a predetermined length of time
- Used when you are not eligible for a deferment
- With forbearance:
 - Only the payment of principal is deferred; the interest continues to accrue
 - You may postpone interest payments while in a forbearance, but the interest will be capitalized (added to the principal) at repayment
 - Lenders/servicers have maximum time limits; most allow up to 24 to 36 months

Loan Deferments and Forbearances

Important details on Deferments and Forbearances

- You must apply for a deferment or forbearance. They are not granted automatically
- You may request and be granted a deferment online, over the phone or by mail from your lender/servicer
- Your original payment schedule will remain in effect until a decision has been made on your deferment or forbearance and it has been processed
- It's best to file at least 30 days before you want the deferment or forbearance to start
- The maximum length of your deferment/forbearance will be determined by the type of deferment/forbearance and your situation. For specific details contact your lender/servicer
- Take advantage of deferment or forbearance benefits to avoid delinquency and default
- Deferments and forbearances do not appear on your credit report and can help you maintain a good credit score
- Use deferments/forbearances wisely!

Public Loan Forgiveness Program

- Only available through the Direct Loan Program
- Program will forgive the remaining student loan balance after 10 years of full-time employment by a public service
- Must make the required 120 monthly loan payments while they are employed full-time by a public service organization to qualify
- Loan payments do not have to be consecutive
- Must make payments under the following Direct Loan Program repayment plans:
 - Income-Based Repayment
 - Income-Contingent Repayment
 - Standard (Level) Repayment
- Borrower responsible for documenting loan payments for loan forgiveness

***Note:** Many restrictions apply to this type of program; research thoroughly before committing
For more information and to review a Department of Education Q&A go to: www.ibrinfo.org*

Private Loan Repayment

- **Managing private loans**

- Payment amounts on variable rate private loans can change monthly, quarterly, or annually, depending on the loan terms
- Maximum repayment terms vary amongst lenders
- Repayment, Deferment, and Forbearance options are **limited**

Monthly Repayment Estimates

\$30,000 Loan	15 Year Repayment	20 Year Repayment
4.25%	\$226	\$186
7.90%	\$285	\$249
10.00%	\$322	\$289

- A limited number of lenders currently offer consolidation for private loans
- Requires careful planning and budgeting

***Note:** Extending your Direct loan repayment out to 25 years can help with lowering monthly Direct loan payments which can offer more fund availability to focus on repaying higher, variable rate private loans or other debt*

Direct Loan Borrower Benefits

- Offers students an opportunity to save money for responsible repayment
- Prior to the credit crisis private lenders had offered a variety of federal loan borrower benefits
- Today government owned loans only offer a 0.25% interest rate reduction for auto-debit payments
- Federal loans still owned by a private lender may have additional borrower benefits that can potentially provide additional savings
- You may lose borrower benefits if you:
 - Do not make on-time payments
 - Do not understand what is considered a late payment
 - Consolidate your loans.
- Contact your lender to review each of your loans and the borrower benefits you may be eligible to receive

Capitalization of Interest

- Occurs when unpaid interest is added to your principal balance prior to entering active repayment
- Interest accrues on loans while attending school, during your grace period and during any deferments or forbearance periods

Capitalization Example

Original Principal Balance:	\$41,000
Unpaid Accrued Interest: (24 months @ 6.8% interest)	<u>\$ 5,575</u>
Principal Balance at Repayment:	\$46,575

- Paying interest during in school, grace, deferment, and forbearance periods will greatly reduce the amount of principal you pay back!
- Important to check with your lender to understand the specific interest capitalization process and frequency

Delinquency and Default

- Generally, if you are more than 30 days past due on a payment national credit bureaus will be notified
- Direct loan default occurs when you become more than 270 days past due on your payments or you fail to meet other terms of your promissory note
- Private loan default occurrences vary by lender but usually less than 270 days past due – check your promissory note for specific details
- There are serious consequences to default and any of the following may result:
 - The delinquency and default will be reported to one or more credit bureaus and your credit history may be damaged for up to 7 years
 - The entire loan amount, including interest, may be due immediately
 - Your wages may be garnished
 - You may no longer be eligible for revised payment schedules or deferments
 - The loan may be referred to a collection agency and you may be held liable for collection costs
 - Your federal and state tax refunds may be withheld

Note: *Direct loans and some private loans are only canceled if you die or become totally and permanently disabled. Both Direct and Private loans are currently not dischargeable in bankruptcy*

Building Good Credit

- Contact creditors immediately if:
 - Having trouble meeting your monthly obligations.
 - May be willing to modify your payment plan to a more manageable level
- Credit counseling organizations
 - Available to assist borrowers
 - Can work with creditors on payment plans
 - Advise borrowers on managing money, debts, and budget development
- The major credit bureaus have free, comprehensive credit education information on their web sites:
 - **www.experian.com**
 - **www.equifax.com**
 - **www.transunion.com**
- Having a good credit report and score means:
 - Easier access to credit, as well as, renting an apartment or applying for a job
 - Lower interest rates
 - Smaller monthly payments (thanks to the lower interest rates!)

Paying Back your Loans - Summary

Before it's time to begin paying back your loans:

- Determine for each loan how much you owe in principal and accrued interest and when your first payment will become due
- Develop a specific repayment strategy for each of your loans that will meet your needs and financial goals
- Utilize online repayment tools to help estimate your monthly payments
- Contact your lender(s) to:
 - Review all loan details
 - Update contact information
 - Review money saving benefits you may be eligible to receive
 - Sign up for automatic payments; especially if a discount is offered!
 - Request a deferment or forbearance for loans that go into immediate repayment if you cannot afford to pay them right now

Note: Any time during loan repayment if you are unable to receive proper assistance from your lender or servicer the Department of Education's SFA Ombudsman's Office is available to assist you.

You can visit their website at <http://ombudsman.ed.gov> or call 1-877-557-2575.

Questions?

