

TAKE CHARGE OF LOAN REPAYMENT!

Strategies for Managing
Your Debt Successfully

Spring 2012

Your Action Plan

4 Steps

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1. Take stock of your loan portfolio
2. Determine when repayment begins
3. Understand your repayment options and pick your plan
4. Prepare for contingencies

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Step 1

**Take stock of your
student loan portfolio**

What have you borrowed?

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FFEL or Direct Loans (Federal)

- ❑ Federal Stafford Loan (subsidized/unsubsidized)
- ❑ Federal PLUS Loan (Grad PLUS)
- ❑ Federal Consolidation Loan

Other Federal Loans

- ❑ Federal Perkins Loan

Non-Federal Loans

- ❑ Private Loans
- ❑ Institutional Loans
- ❑ Personal Loans

FFEL vs. Direct

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Federal Family Education Loan Program (FFEL)

- ❑ Lender was private institution
- ❑ FFEL loans can be sold to another entity
- ❑ Loans may be serviced by lender or 3rd party
- ❑ FFEL loans sold to Dept. of Education do not become Direct Loans—must be consolidated in Direct Program to be eligible for Public Service Loan Forgiveness

Federal Direct Loan Program (Direct)

- ❑ Lender was U.S. Department of Education (ED)
- ❑ Direct loans won't be sold
- ❑ Loans currently are serviced by one of five federal contractors
- ❑ Only Direct Loans are eligible for Public Service Loan Forgiveness

Who must you repay?

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You repay current loan holder

- You could have multiple loan holders
- One or more of your original lenders may no longer be in business
- Your original lender may have sold your FFEL loan(s) to another lender including the U.S. Department of Education
- You could have both FFEL and Direct Loans

Use NSLDS for current information about your federal student loans

NSLDS

An Important Resource

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To access, enter:

- ❑ SSN
- ❑ First two letters of last name
- ❑ Birthdate
- ❑ Dept. of Ed PIN

**START HERE
GO FURTHER**
FEDERAL STUDENT AID™

National Student Loan Data System (NSLDS) for Students

[Financial Aid Review](#) [Glossary of Terms](#) [Browser Information/Setup](#) [FAQs](#) [Contact Us](#)

[Hurricane Assistance](#)

NSLDS STUDENT ACCESS

National Student Loan Data System

Retrieve Your Loan Information

The National Student Loan Data System (NSLDS) is the U.S. Department of Education's (ED's) central database for student aid. NSLDS receives data from schools, guaranty agencies, the Direct Loan program, and other Department of ED programs. NSLDS Student Access provides a centralized, integrated view of Title IV loans and grants so that recipients of Title IV Aid can access and inquire about their Title IV loans and/or grant data.

[FINANCIAL AID REVIEW](#)

NSLDS

Information Provided

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Summary

- Type/name of loan
- Application amount
- Date processed
- Disbursed amount
- Cancelled amount
- Current principal
- Accrued interest
- Totals

Details

- School attended
- Date repayment begins
- Interest rate structure
- Loan status
- Current lender
- Current servicer
- Current guarantor

Your Credit Report

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- Another source for information about your debt is your credit report from a consumer reporting agency (e.g., Equifax, Experian, TransUnion)
- You can obtain a FREE copy of your credit report at: ***AnnualCreditReport.com*** once every 12 months



The screenshot shows the homepage of AnnualCreditReport.com. At the top, the logo "AnnualCreditReport.com" is displayed in blue and red. Below the logo is a navigation bar with links for "AnnualCreditReport.com", "Frequently Asked Questions", "Contact Us", "About Us", and "Fraud Alert". The main content area features a large blue box with the text "Request your free annual credit report. It's QUICK, EASY and SECURE." and "START HERE to view and print your credit report now." Below this text is a "Select Your State" dropdown menu and a red "Request Report" button. To the right of the main content is a sidebar with a section titled "What is AnnualCreditReport.com?" containing text about requesting a free credit file disclosure and a link to the website. Below the sidebar is a section titled "We guard your privacy." with text about ensuring the user is on the legitimate site and a link to the website. At the bottom of the page, there is a small section for "This site is sponsored by:" with a logo for "Equifax" visible.

Who is your lender?

Stafford and Grad PLUS Loans

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It could be:

- Original lender
- Secondary market loan holder
- U.S. Department of Education
 - ▣ FFEL Loans
 - ▣ Direct Loans

How much do you owe?

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Depends on:

- Amount borrowed (original principal)
- Whether loan(s) were subsidized or unsubsidized
- Interest rate(s)
- Amount of accrued interest on unsubsidized loan(s) that capitalized at repayment

How much do you owe?

An Example

<i>University of San Diego School of Law – Class of 2011</i>	
Average student loan borrowing: Subsidized Stafford/Direct Loan (DSL) = \$25,500 Unsubsidized Stafford/Direct Loan (UDSL) = \$36,000 Grad PLUS Loan (PLUS) = \$49,125	110,625
Estimated capitalized interest: DSL = \$0 UDSL = \$5,200 PLUS = \$8,200	\$13,400
Estimated total debt at repayment: DSL = \$25,500 UDSL = \$41,200 PLUS = \$57,325	\$124,025
<u>Assumptions:</u>	DSL/UDSL interest rate = 6.8% PLUS interest rate = 7.9%

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Step 2

**Determine when loan
repayment begins**

What happens to your federal loans after graduation?

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Stafford and Perkins Loans

- GRACE period begins *automatically*
 - ▣ Stafford = 6 months
 - ▣ Perkins = 9 months
- Repayment begins
 - ▣ Start payments
 - ▣ Postpone repayment

Grad PLUS, Consolidation Loans

- NO grace period-- repayment begins
 - ▣ Select payment plan and start payments
 - ▣ Postpone repayment
- Exception for Grad PLUS:
 - ▣ Grad PLUS Loans first disbursed on/after 7/1/2008 have **automatic 6-month post-enrollment deferment**

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

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- Temporarily postpone repayment
- Consider Income-Based Repayment (IBR) for Stafford, Grad PLUS and Consolidation Loans

Postponing Repayment

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- Options include:
 - Deferment
 - Temporary postponement of your monthly student loan payments
 - Interest is subsidized on subsidized loans; accrues on unsubsidized loans
 - Forbearance
 - Temporary postponement or reduction of your monthly student loan payments
 - Interest accrues on ALL loans
- Contact your loan servicer to apply

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Step 3

Pick your payment plan

Picking Your Plan

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Suggested steps:

1. Understand your options
2. Define your financial goals
3. Determine how much you can afford to pay each month
4. Evaluate how your other debt (e.g., credit cards) impacts repayment of student loans
5. Select option that best meets your needs

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Picking Your Plan

Understanding your options

Federal Student Loan Repayment Options

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Stafford, Grad PLUS, Consolidation:

- Standard (Fixed) Repayment
- Graduated Repayment
- Extended Repayment
- Income-Sensitive Repayment (FFEL)/
Income-Contingent Repayment (Direct)
- Income-Based Repayment

Comparison of Stafford, Grad PLUS and Consolidation Plans

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Options	Payment Structure	Maximum Payment Period
Standard	Fixed	10 years
Graduated	Tiered	10 years
Extended	Fixed or tiered	25 years
Income Sensitive – <i>FFEL</i>	Adjusted annually based on: - Total gross income	15 years
Income-Contingent – <i>Direct</i>	Adjusted annually based on: - Household AGI - Household size - Total amount of Direct Loans	25 years
Income Based (IBR)	Adjusted annually based on: - Household AGI - Household size - Poverty guideline - State of residence	25 years

Initial Monthly Payments

Standard vs. Extended Plans

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Total Debt	Standard Plan (10 yrs)		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

Income-Based Repayment

Important Questions to Answer

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- Who can benefit?
- What loans are eligible?
- How do you qualify?
- How is payment calculated?
- What else do I need to know?

IBR

Who can benefit?

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Borrowers:

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

IBR

What loans are eligible?

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FFEL and Direct Loans:

- Federal Stafford Loans
- Federal Grad PLUS Loans
- Federal Consolidation Loans
(cannot include payoff of a Parent PLUS Loan)

IBR

How do you qualify?

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To enter IBR, you must have:

**PARTIAL FINANCIAL HARDSHIP
(PFH)**

Partial Financial Hardship

A Technical Definition

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“You have a partial financial hardship if the monthly amount you would be required to pay on your IBR-eligible loans under a Standard Repayment Plan with a 10-year repayment period (based on the greater of the amount you owed on those loans when they initially entered repayment or the amount you owe when you request IBR) is higher than the monthly amount you would be required to repay under IBR.” (U.S. Department of Education, IBR Program Q&As, February 7, 2011)

A simpler view ...

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Partial financial hardship exists when:

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

>

IBR
payment
\$\$

PFH generally exists when:

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Total eligible
debt at start of
repayment

exceeds

Household
AGI

Sample AGI Thresholds to Qualify for IBR in 2011

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Stafford Loan Debt	Household AGI (15% formula)		
	HH size = 1	HH size = 2	HH size = 3
\$10,000	\$25,541	\$31,271	\$37,001
\$15,000	\$30,145	\$35,875	\$41,605
\$20,000	\$34,748	\$40,478	\$46,208
\$25,000	\$39,351	\$45,081	\$50,811
\$30,000	\$43,954	\$49,684	\$55,414
\$50,000	\$62,637	\$68,097	\$73,827
\$75,000	\$85,383	\$91,113	\$96,843
\$100,000	\$108,399	\$114,129	\$119,859
\$150,000	\$154,431	\$160,161	\$165,891
\$200,000	\$200,464	\$206,194	\$211,924

Assumptions: Interest rate = 6.8% and borrower resides in 48 contiguous states

IBR

How is monthly payment calculated?

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When PFH exists, IBR payment is based on:

- Household AGI
- Household size
- HHS Poverty Guidelines

IBR

“Household AGI”

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- 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

IBR

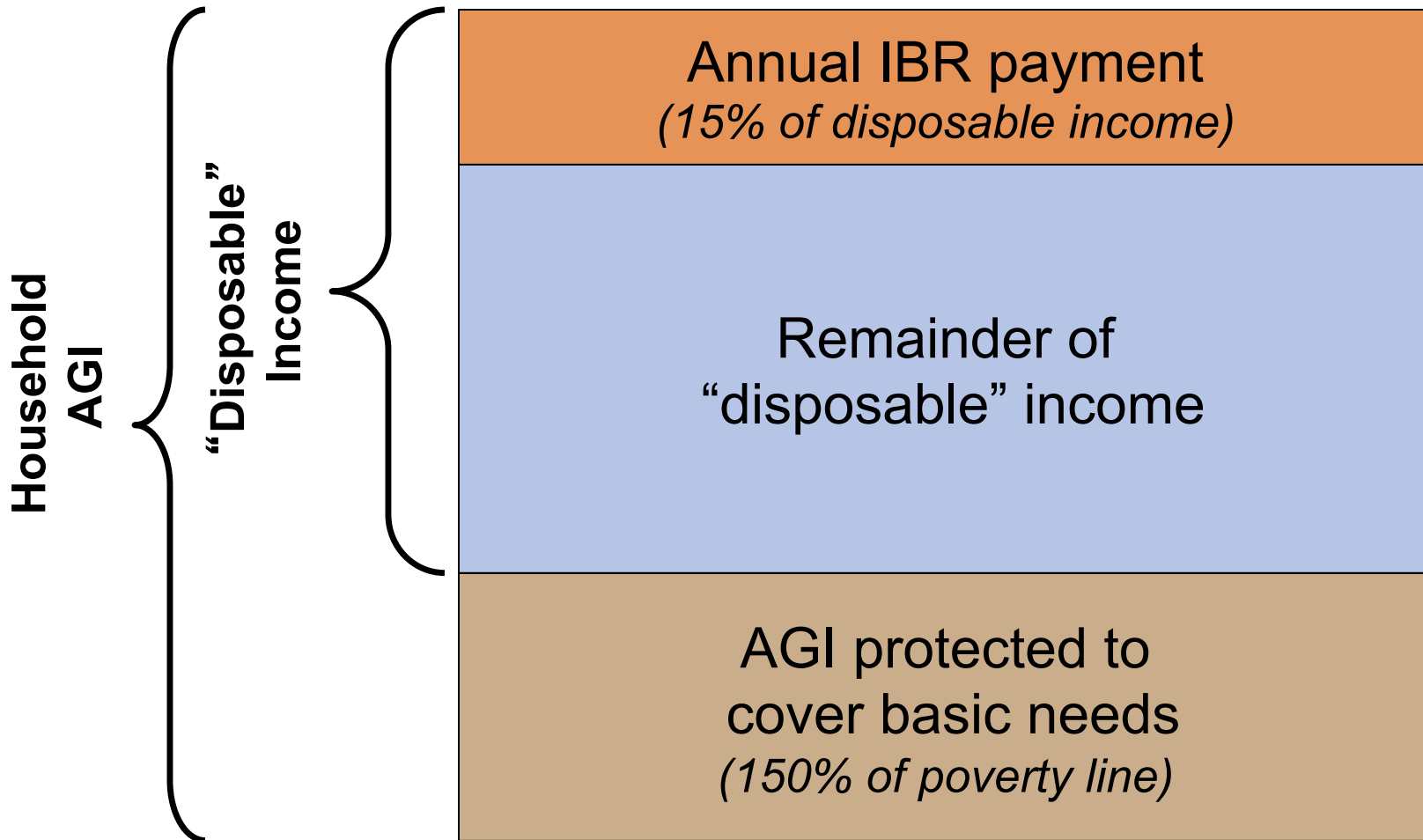
“Household Size”

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- You
- Spouse
- Dependent children in household
- Other dependents in household who receive $\geq 50\%$ support from you

Annual amount paid in IBR is 15% of “disposable income”

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Sample IBR Payments

15% Formula

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Household AGI	2011 Monthly PFH Payment in 48 states		
	HH Size = 1	HH Size = 2	HH Size = 3
\$0	\$0	\$0	\$0
\$10,000	\$0	\$0	\$0
\$20,000	\$46	\$0	\$0
\$30,000	\$171	\$99	\$28
\$40,000	\$296	\$224	\$153
\$50,000	\$421	\$349	\$278
\$60,000	\$546	\$474	\$403
\$70,000	\$671	\$599	\$528
\$80,000	\$796	\$724	\$653
\$90,000	\$921	\$849	\$778
\$100,000	\$1,046	\$974	\$903

Sample IBR Payments, cont.

15% Formula

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Household AGI	2011 Monthly PFH Payment in 48 states		
	HH Size = 1	HH Size = 2	HH Size = 3
\$100,000	\$1,046	\$974	\$903
\$110,000	\$1,171	\$1,099	\$1,028
\$120,000	\$1,296	\$1,224	\$1,153
\$130,000	\$1,421	\$1,349	\$1,278
\$140,000	\$1,546	\$1,474	\$1,403
\$150,000	\$1,671	\$1,599	\$1,528
\$160,000	\$1,796	\$1,724	\$1,653
\$170,000	\$1,921	\$1,849	\$1,778
\$180,000	\$2,046	\$1,974	\$1,903
\$190,000	\$2,171	\$2,099	\$2,028
\$200,000	\$2,296	\$2,224	\$2,153

IBR

“Pay As You Earn” Proposal (10%)

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- Annual IBR payments would be equal to 10% of household’s “disposable” income **(rather than current 15% rate)**
- IBR debt forgiveness would occur after 20 years of eligible payments **(rather than current 25 years period)**
- Final details subject to “Negotiated Rulemaking”

IBR

“Pay As You Earn” Eligibility

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- Eligible borrowers:
 - ▣ New borrowers since 2008
 - ▣ Must have a loan originated in 2012
- In-eligible borrowers:
 - ▣ Borrowers with loans from 2007 or earlier
 - ▣ Borrowers who have no new loans in 2012
 - ▣ Borrowers already in repayment

IBR

What happens if PFH ends?

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

If exiting IBR ...

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- Must switch to Standard Repayment Plan
- New monthly payment is based on:
 - ▣ Total eligible debt remaining
 - ▣ Amortized over number of months remaining in original 10-year period when loan(s) first entered repayment
- Must remain on Standard plan for up to 12 months before switching to another plan

IBR

Negative Amortization

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- IBR payment can be less than accrued interest
- Unpaid interest accrues
- Debt increases

Interest Subsidy in IBR

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Unpaid interest accruing on **subsidized** Stafford loan debt is paid by government for up to first 3 consecutive years in IBR plan.

Maximum Loan Period and Loan Cancellation in IBR

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- IBR repayment period can extend to maximum of 25 years
- Debt remaining after 25 years in IBR is forgiven (taxable benefit)

IBR Repayment Calculators

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Available online, e.g.,

- *StudentLoans.gov*
- *IBRinfo.org*
- *FinAid.org*
- *MappingYourFuture.org*

Plan Comparison

\$124,025 Federal Student Loan Debt

\$80,000 Household AGI in 2011

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Options	Payment Structure	Maximum Payment Period	Sample Monthly Payment	Payment #	Est. Total Amount Paid
Standard	Fixed	10 years	\$1,460	All (1-120)	\$175,179
Graduated	Graduated	10 years	\$755 \$1,710	1-24 25-120	\$182,290
Extended	Fixed	25 years	\$901	All (1-300)	\$270,340
	Graduated	25 years	\$755 \$929	1-24 25-300	\$274,607
Income Contingent	Adjusted annually	25 years	\$1,152 tbd	1-12 13+	tbd
Income Based (IBR)	Adjusted annually	25 years	\$796 tbd	1-12 13+	tbd

Picking Your Plan

- ❑ **Setting goals**
- ❑ **Budgeting for repayment**
- ❑ **Balancing trade-offs**
- ❑ **Comparing payments**

Loan Prepayment

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- You can make prepayments on your federal student loan(s) without penalty
- Will reduce total interest paid on loan

When prepaying a loan ...

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- Verify where payment should be mailed
- Include written explanation about how to apply payment
- Target prepayment at loan(s) with highest interest rate

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Step 4

Preparing for contingencies

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

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Contact your loan servicer immediately!

Payment relief may be available, including:

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

Traditional Consolidation

A Refinancing Option

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- ❑ You can refinance one or more eligible federal student loans by borrowing a Federal Direct Consolidation Loan
- ❑ All federal student loans except 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

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- ❑ To simplify repayment by reducing number of your loans/lenders/servicers
- ❑ To convert Stafford Loans with variable interest rate(s) into Consolidation Loan with fixed interest rate
- ❑ To refinance FFEL loan(s) into Direct Program to make debt eligible for Public Service Loan Forgiveness Program
- ❑ *To reduce monthly payment on federal student loan debt*

Special Direct Consolidation Program

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- Available January 1-June 30, 2012
- Must have at least one:
 - Student loan held by ED (Direct or FFEL loan); **AND**
 - FFEL loan held by a private lender
- Only FFEL loan(s) held by private lender can be consolidated (must be in grace, repayment, deferment or forbearance)
- Fixed interest rate will be reduced by 0.25%; repayment period will not change
- Wait to be contacted by ED servicer

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Taking Charge

Final words ...

An “Action Plan”

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- Check your loan history at *NSLDS.ed.gov*
- Notify loan servicer(s) of address changes whenever you move
- Develop your loan timeline
- Select plan that best meets your needs

Selecting Your Plan

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Consider the following ...

- If you want to pay the lowest amount of total interest, choose:
 - ▣ **Standard Repayment plan**
- If you want the lowest possible monthly loan payment, choose:
 - ▣ **Extended Repayment** (fixed or graduated), OR
 - ▣ **Income-Based Repayment** (IBR) plan
- Remember, you have the right to make prepayments on your loans at any time without penalty

Options for Public Interest/ Public Sector Employment

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- **Public Service Loan Forgiveness Program**
 - Can apply to have remaining Federal Direct Loan debt forgiven once you:
 - Work full-time for 120 months (months do not need to be consecutive) in qualifying public service position,
 - AND
 - Make 120 qualifying loan payments during period of qualifying employment.

For more information visit: *StudentAid.ed.gov* and
EqualJusticeWorks.org

- **USD School of Law Loan Repayment Assistance Program (LRAP)**

For more information ...

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- Federal student loan repayment: *StudentLoans.gov*
- Federal Direct Consolidation Loans: *LoanConsolidation.ed.gov*
- National Student Loan Data System: *NSLDS.ed.gov*
- Federal loan repayment calculator: *StudentLoans.gov*
- IBR repayment calculator: *FinAid.org/calculators*
- Annual free credit report: *AnnualCreditReport.com*
- Equal Justice Works: *EqualJusticeWorks.org*

Loan Repayment

“Top Ten” Vocabulary List

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Make sure you know these terms!

- Grace
- FFEL
- Direct
- Servicer
- NSLDS
- Standard
- Extended
- IBR
- Consolidation
- Prepayment

YOU CAN TAKE CHARGE!

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Education Services

University of San Diego
School of Law

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Additional Slides

Deferment and Forbearance

Current Deferment Types

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- In-school
- Education-related
 - ▣ Graduate fellowship
 - ▣ Rehabilitation training
- Unemployment
- Economic hardship
- Military
- Post-enrollment *(for Grad PLUS made on/after 7/1/2008)*

Forbearance

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Temporary postponement or reduction of monthly payments, or extension of time for making payments

- You're responsible for all accrued interest
- Discretionary forbearances may be available
- Must request a forbearance from your current loan servicer
- Must provide whatever documentation is requested
- **Mandatory forbearance** may be available in certain cases including periods of economic hardship, or medical/dental internship or residency

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IBR

2011 HHS Federal Poverty Guidelines

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Household Size	48 Contiguous States and D.C.	Alaska	Hawaii
1	\$10,890	\$13,600	\$12,540
2	14,710	18,380	16,930
3	18,530	23,160	21,320
4	22,350	27,940	25,710
5	26,170	32,720	30,100
6	29,990	37,500	34,490
7	33,810	42,280	38,880
8	37,630	47,060	43,270
For each added person, add	3,820	4,780	4,390

Source: *Federal Register*, Vol. 76, No. 13, January 20, 2011, pp. 3637-3638

IBR Eligibility and Payment Calculation Steps

Step #	Calculation (15% formula)	Example #1	Example #2	Example #3
1	Determine total eligible debt	\$124,025	\$124,025	\$124,025
2	Calculate 10-year monthly payment for debt	\$1,460	\$1,460	\$1,460
3	Determine household AGI	\$40,000	\$80,000	\$120,000
4	Determine household size	1	1	1
5	Determine HHS poverty guideline	\$10,890	\$10,890	\$10,890
6	Calculate 150% of HHS poverty guideline	\$16,335	\$16,335	\$16,335
7	Calculate “disposable” income (AGI - 150% of poverty guideline)	\$23,665	\$43,665	\$103,665
8	Calculate annual IBR payment (15% of “disposable” income)	\$3,550	\$6,550	\$15,550
9	Calculate monthly IBR payment (1/12 th of Step 8 result)	\$296	\$796	\$1,296
10	Does partial financial hardship exist? YES, if Step 9 result < Step 2 result NO, if Step 9 result ≥ Step 2 result	YES, borrower can enter IBR	YES, borrower can enter IBR	YES, borrower can enter IBR

Picking Your Plan

Setting Goals

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Consider answering following questions:

- How quickly do you want to be debt-free?
- What do you want/need to buy once you graduate?
- What kind of lifestyle do you want and what will it cost?
- What are your hopes/plans for a family?
- How hard do you want to work?
- How much do you need saved for emergencies?
- When do you want to retire and how much will you need to have saved?

Budgeting for Repayment

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You need to calculate your budget:

- Quantify monthly earnings and other resources
- Estimate monthly expenses without your loan payment
- Subtract expenses from earnings to determine how much is available to pay your loans each month

What if nothing is left to pay your loans?

Balancing Trade-offs

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- You may choose to pay off debt ...
 - ▣ as fast as possible, OR
 - ▣ more slowly based solely on what is affordable given all other expenses, OR
 - ▣ more slowly to maximize ability to save and/or invest for the future

- When prepaying debt, **ALWAYS** prepay your highest cost debt(s) first

Public Service Loan Forgiveness Program (PSLF)

Key Points

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- DIRECT Loans only
- Work full-time in public service for 10 years
- Repay loans using IBR

PSLF

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To qualify for loan forgiveness:

- Eligible DIRECT Loans cannot be in default, **AND**
- Must have worked full-time for 120 months* in qualifying public service position, **AND**
- Must have made 120 qualifying loan payments on DIRECT Loans during period of qualifying employment.

***Months do not need to be consecutive**

Qualifying Employment

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Must be FULL-TIME employment in:

- 501(c)(3) organization exempt from taxation under section 501(a) of the IRS Code of 1986,
OR
- Government (federal, state, local, tribal) agency in U.S.

Full-time employment is defined as greater of:

- 30 hours/week, or
- Employer's definition of full-time

Qualifying Payments

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Payments must be made using:

- Income Based Repayment (IBR)
- Income Contingent Repayment (ICR)
- Standard Repayment (10-year fixed plan)

OR

- Amount paid each month must be no less than payment based on a 10-year loan period

Suggested Steps to Participate in PSLF

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- Consolidate any FFEL program loans in the Federal Direct Loan Program at:
www.LoanConsolidation.ed.gov
- Use IBR to repay your eligible loan(s)
- Make 120 payments (on-time) while working full-time in qualifying public service position(s)
- Keep good records regarding all qualifying employment
- Apply for PSLF after 120 months of qualifying activity has been completed

Suggested Employment Records for PSLF

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- Documentation that you worked full-time every month you made a qualifying payment on your Federal Direct Loan debt
- Documentation of what your employer(s) consider “full-time” employment
- Documentation that your employer(s) is/are an eligible employer

PSLF – Sample Case

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Assumptions	
Eligible federal student loan debt	\$124,025
1 st year Household Adjusted Gross Income (AGI)	\$48,000
Assumed annual increase in AGI	3%
Assumed annual increase in poverty guideline	3%
Assumed AGI in 10 th year	\$62,629

IBR Payment Information	
IBR monthly payment in 1 st month	\$397
IBR monthly payment in 120 th month (max)	\$518
Total amount paid in IBR over 10 years	\$54,605

Estimated Loan Forgiveness	
Total accrued interest forgiven after 10 years	\$33,652
Total principal forgiven after 10 years	\$124,025
Total amount forgiven after 10 years	\$157,677

Calculations made using 2010 poverty guideline and IBR calculator at: FinAid.Org/calculators