LOAN REPAYMENT STRATEGIES

Be Ready!
Develop a Plan!

Spring 2016

Majority of law students...

... now graduate with an EDUCATIONAL MORTGAGE

Decisions to be made ...

You will need to make the following decisions when repayment begins:

☐ What payment plan should I choose?
☐ Should I pay more than the required amount?
☐ Should I consolidate/refinance my loans?

This presentation is designed to help you make more fully-informed (and strategic) decisions about repaying this “mortgage.”
Federal Loan Repayment

3 Important Features …

Choice

Flexibility

Safety

Copyright © 2013 by Law School Admission Council, Inc.

What do you think?

- Should you be paying the interest as it is accruing in school?
- Should you refinance your federal loans with a private loan to get a better interest rate?
- Should you pay off your federal student loans as fast as possible after graduation?

Interest on federal loans is SIMPLE interest!

- Interest accrues on unsubsidized student loans (i.e., Unsubsidized Stafford Loan, Grad PLUS Loan) as soon as funds are disbursed, but it is NOT compounding!
- Accrued interest “capitalizes” only when loans enter/re-enter repayment (also can occur if you change from an income-driven plan to some other repayment plan)
- Better to reduce amount you are borrowing if you have funds to pay the accruing interest while in school
Federal student loans are unique ...

- Payments can be based on your income
  - Payments can be less than 10% of your gross income and negative amortization is allowed
- Payment relief options are available
- Forgiveness may be available on a portion of your debt if not fully repaid within 20-25 years or if doing qualifying public service for 10 years

You will lose these unique features if you refinance your federal student loans with a private student loan!

When repaying Federal Direct Loans, faster may not be better

- You may want to consider:
  - Taking as long as possible to repay your Federal Direct Loans

  Why?
  - You may have better uses for your “extra” funds in terms of “opportunity cost”

Consider “Opportunity Cost”

- It’s about trade-offs
- You have scarce resources
  - Time
  - Money
- Ask yourself:
  - “If I did not “spend” my time/money on this now, what else could I use it for—and would that be better for me?”
- Make sure you are using your scarce resources to their “highest and best” use

© 2016 by Jeffrey Hanson Education Services
All rights reserved.
### Pay Yourself First!

Financial planners suggest you should “Pay Yourself FIRST” using at least 20% of your gross monthly income on...

- Saving for a “rainy day” — the emergency fund
  - Minimum of 6-9 months of your monthly living expenses
- Investing for retirement
  - Minimum of 10% of your gross monthly income
- Saving for the down payment/closing costs for a home
  - Minimum of 10% of purchase price
- Saving for their children’s education
  - Minimum needed uncertain — may need to start paying for children’s education much sooner than expected (e.g., elementary school)

### What should you do?

**Consider:**
- Choosing the repayment plan that offers the **LOWEST** scheduled monthly payment

**Why?**
- This provides **maximum cash flow flexibility** so that you can:
  - Maximize amount you are prepaying in a targeted way at your most expensive debt (e.g., Grad PLUS Loans)
  - **AND/OR**
  - Invest/save “extra cash” for the future (i.e., pay yourself first)
Loan Repayment Plans
Payments Based on DEBT

<table>
<thead>
<tr>
<th>Plans</th>
<th>Payment Structure</th>
<th>Maximum Payment Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard (default plan)</td>
<td>Fixed payments (do not change)</td>
<td>10 years</td>
</tr>
<tr>
<td>Graduated</td>
<td>Payments increase in graduated steps every 2 years</td>
<td>10 years</td>
</tr>
<tr>
<td>Extended (fixed)</td>
<td>Fixed payments (do not change)</td>
<td>25 years</td>
</tr>
<tr>
<td>Extended (graduated)</td>
<td>Payments increase in graduated steps every 2 years—initial payment = interest only</td>
<td>25 years</td>
</tr>
</tbody>
</table>

- Monthly payment must at least equal the accrued interest each month
- Must have more than $30,000 in Direct Loans to use EXTENDED repayment options

Loan Repayment Plans
Payments Based on INCOME

<table>
<thead>
<tr>
<th>Plans</th>
<th>Payment based on:</th>
<th>Balance forgiven after:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Based Repayment (IBR) for NEW Borrowers</td>
<td>10% of “Discretionary Income”</td>
<td>20 years</td>
</tr>
<tr>
<td>Pay As You Earn (PAYE)</td>
<td>10% of “Discretionary Income”</td>
<td>20 years</td>
</tr>
<tr>
<td>Revised Pay As You Earn (REPAYE) - NEW</td>
<td>10% of “Discretionary Income”</td>
<td>20 years (UG only) 25 years (UG/Grad)</td>
</tr>
<tr>
<td>Income Based Repayment (IBR)</td>
<td>15% of “Discretionary Income”</td>
<td>25 years</td>
</tr>
<tr>
<td>Income Contingent Repayment (ICR)</td>
<td>20% of “Discretionary Income”</td>
<td>25 years</td>
</tr>
</tbody>
</table>

- Monthly payments can be less than accrued interest each month (“negative amortization”)
- Payments will be adjusted up or down every 12 months based on how your income increases or decreases

Annual amount paid in PAYE/REPAYE/New IBR is 10% of “Discretionary” Income

Household AGI

- “Discretionary” Income
  - Annual REPAYE/PAYE/10% IBR payment (10% of “Discretionary” Income)
  - Remainder of “Discretionary” Income
  - AGI protected to cover basic needs (150% of poverty line)
"NEW Borrower" Eligibility Requirements

May need to be "NEW Borrower" to use the plan:

<table>
<thead>
<tr>
<th>Plans</th>
<th>Must be a &quot;NEW Borrower&quot;</th>
<th>&quot;NEW Borrower&quot; as of:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Based Repayment (IBR) for New Borrowers</td>
<td>YES</td>
<td>July 1, 2014</td>
</tr>
<tr>
<td>Pay As You Earn (PAYE)</td>
<td>YES</td>
<td>October 1, 2007</td>
</tr>
<tr>
<td>Revised Pay As You Earn (REPAYE)</td>
<td>NO</td>
<td>n/a</td>
</tr>
<tr>
<td>Income Based Repayment (IBR)</td>
<td>NO</td>
<td>n/a</td>
</tr>
<tr>
<td>Income Contingent Repayment (ICR)</td>
<td>NO</td>
<td>n/a</td>
</tr>
</tbody>
</table>

REPAYE vs. PAYE

Similarities
- Payments based on 10% of "discretionary" income
- Payments qualify for Public Service Loan Forgiveness (PSLF)
- Only applies to DIRECT loans
- Interest capitalization more limited in both plans, but a bit different between the two

Differences
- Differences that favor PAYE:
  - Forgiveness after 25 years rather than 20 years
  - Spouse's income always included as income
  - Payments do not "max out" at 10-year "standard" amount
- Differences that favor REPAYE:
  - No "new" borrower requirements
  - Increased interest subsidy when negative amortization occurs

Interest Subsidy in IDR Plans

<table>
<thead>
<tr>
<th>Plans</th>
<th>Subsidized Loans</th>
<th>Unsubsidized Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Based Repayment (IBR) for New Borrowers</td>
<td>100% of negative amortization during first 3 years in plan; none thereafter</td>
<td>NONE</td>
</tr>
<tr>
<td>Pay As You Earn (PAYE)</td>
<td>100% of negative amortization during first 3 years in plan; none thereafter</td>
<td>NONE</td>
</tr>
<tr>
<td>Revised Pay As You Earn (REPAYE)</td>
<td>100% of negative amortization during first 3 years in plan; 50% thereafter</td>
<td>50% of negative amortization during all years in plan</td>
</tr>
<tr>
<td>Income Based Repayment (IBR)</td>
<td>100% of negative amortization during first 3 years in plan; none thereafter</td>
<td>NONE</td>
</tr>
<tr>
<td>Income Contingent Repayment (ICR)</td>
<td>NONE</td>
<td>NONE</td>
</tr>
</tbody>
</table>
### REPAYE vs. PAYE
**What plan should you consider choosing?**

<table>
<thead>
<tr>
<th>REPAYE</th>
<th>PAYE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Negative amortization exists (payment &lt; accrued interest) • Will receive more interest subsidy</td>
<td>Negative amortization does NOT exist (payment ≥ accrued interest)</td>
</tr>
</tbody>
</table>

Consider changing from **REPAYE** to **PAYE** once:
- Negative amortization no longer exists (payment ≥ accrued interest)
- You get married AND you file separate federal tax returns
- You have earned at least 10 years of payments that would qualify for forgiveness of the debt
- Forgiveness could occur after 20 years of income-driven payments rather than 25 years
- "Partial Financial Hardship" no longer exists (payment based on 10% of AGI now equals or exceeds 10-year "Standard" amount)
- PAYE payments may be at 10-year amount—REPAYE payments would keep increasing as income increases (no payment cap in REPAYE)

(Changing plans causes outstanding accrued interest to be capitalized (added to principal balance)

### REPAYE vs. IBR (15%)
**What plan should you consider choosing?**

<table>
<thead>
<tr>
<th>REPAYE</th>
<th>IBR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single (or married filing jointly) and negative amortization exists (payment &lt; accrued interest) • Payments will be based on 10% of household’s AGI rather than 15% • Will receive more interest subsidy</td>
<td>You’re married and file federal tax returns separately and negative amortization does not exist (payment ≥ accrued interest) • 15% of your AGI alone (used in IBR) may equal less than 15% of your combined AGI (used in REPAYE)</td>
</tr>
</tbody>
</table>

Consider changing from **REPAYE** to **IBR** once:
- You get married AND you file separate federal tax returns
- 15% of your AGI alone (used in IBR) may equal less than 15% of your combined AGI (used in REPAYE)
- "Partial Financial Hardship" no longer exists (payment based on 15% of AGI now equals or exceeds 10-year "Standard" amount)
- IBR payments max out at 10-year amount—REPAYE payments would keep increasing as income increases (no payment cap in REPAYE)

(Changing plans causes outstanding accrued interest to be capitalized (added to principal balance)

### Completing the Income-Driven Repayment (IDR) Plan Request
1. Log-in at: [StudentLoans.gov](https://www.StudentLoans.gov)
2. Click on: “Complete Income-Driven Repayment Plan Request”
3. Step 2 of application asks if your current income is "significantly different" from AGI on your prior year’s federal tax return.
   - "Significantly different" not defined—so there is no wrong answer to the question—you can answer NO even if you now have more income
   - BUT, you must have filed your tax return in the prior year to do so!
Estimate Your Monthly Payment

“Repayment Estimator” at: StudentLoans.gov

To “log in,” enter:
- FSA ID

*ED has switched from using a PIN to the new FSA ID (username and password) – you can create your FSA ID when you log in at: StudentLoans.gov

Click on: “Repayment Estimator”

Enter needed information

For income driven (IDR) plans, enter:
- Tax filing status
- Adjusted gross income, household size and state of residence

Also can:
- Add loans
- Apply for Direct Consolidation Loan
- Apply for IDR plan
- Email results
Payment Comparisons
Direct Loan Debt = $128,000 (Weighted average interest rate = 6.3%)
Household AGI = $75,000 (Household Size = 1; State = CA)
(Estimates calculated using "Repayment Estimator" at: StudentLoans.gov)

Consolidation
Should you refinance your federal student loans?
Consolidation
A Refinancing Option

- Borrowing a **new** loan
  - Federal Direct Consolidation Loan
- Only **federal** student loans are eligible
- Interest rate is **fixed**
  - Equals weighted average of interest rates of loans being consolidated then **rounded up to nearest 1/8th percent**
- Apply online at: **StudentLoans.gov**
  - Loans must be in grace, repayment, deferment or forbearance
  - Can opt to delay funding of new loan until end of grace period

Reasons to Consolidate

- Simplify repayment by reducing number of lenders/servicers—you do **NOT need to “consolidate”** your DIRECT loans to get a single bill
- Convert non-DIRECT federal student loan debt (e.g., FFEL, Perkins Loans) into a Federal Direct Consolidation Loan—**only DIRECT loans are eligible for PAYE/REPAYE and PSLF**
- Increase maximum repayment term on federal student loan debt up to 30 years—**lowers monthly payment when using STANDARD or GRADUATED repayment options**
- Convert variable-rate Stafford Loans (borrowed prior to 7/1/2006) into a fixed-rate Direct Consolidation Loan
- Release endorser from Grad PLUS Loan(s)

Develop your “Action Plan”

Don’t leave it to “chance” – create a plan to repay your “educational mortgage”
What do you need to know?

For each loan in your portfolio:

- Type of loan
- Interest rate (and when accrued interest capitalizes)
- Amount owed
- Who to repay (and how to contact them)
- When repayment begins/resumes
- Current status of each loan
- Repayment options

NSLDS.ed.gov

“Financial Aid Review”—A Useful Resource

To access, enter:

- FSA ID*

*ED has switched from using a PIN to the FSA ID (username and password) — you can create your FSA ID when you log-in to NSLDS.

Who is your loan servicer?

Direct loans currently are “serviced” by the following contractors:

| Education Services of America (EdSouth/Edfinancial) | Nelnet |
| FedLoan Servicing                                  | New Hampshire Higher Ed. Loan Corp. (Granite State) |
| Great Lakes                                        | Oklahoma Student Loan Authority (OSLA) |
| MOHELA                                            | Utah Higher Ed. Assistance Auth. (Cornerstone) |
| Navient (formerly Sallie Mae)                      | Vermont student Assistance Corp. (VSAC) |

- ED may transfer your Direct Loans to another servicer in the future — you will be notified!
- Check “loan detail” screen on NSLDS.ed.gov to verify contact information for your loan servicer(s)
When does repayment begin?

<table>
<thead>
<tr>
<th>Loans with GRACE PERIOD</th>
<th>Loans without GRACE PERIOD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub and Unsub/Stafford</td>
<td>Grad PLUS</td>
</tr>
<tr>
<td>6 months after graduation</td>
<td>6 months after graduation due to automatic 6-month post-enrollment deferment</td>
</tr>
<tr>
<td>Perkins</td>
<td>Consolidation</td>
</tr>
<tr>
<td>9 months after graduation</td>
<td>At graduation</td>
</tr>
<tr>
<td>Private</td>
<td>Prior loans where grace period has been used</td>
</tr>
<tr>
<td>Contact lender</td>
<td>At graduation</td>
</tr>
<tr>
<td>Institutional</td>
<td></td>
</tr>
<tr>
<td>Contact school</td>
<td></td>
</tr>
</tbody>
</table>

35 Taking Charge

Final words ...

Direct Loan payment tips ...

- SINGLE statement billing—one monthly payment
- Pay by:
  - Check or money order
  - Online payment
  - ‘Auto-Pay’
    - Saves time
    - Saves money -- interest rate reduced by 0.25%
      - Sign up for “Auto-Pay” with your loan servicer
For more information ...

- Contact your loan servicer(s)
- Online resources:
  - Federal student loan repayment: StudentAid.gov
  - Federal loan “Repayment Estimator”: StudentLoans.gov
  - Federal Direct Consolidation Loans: StudentLoans.gov
  - National Student Loan Data System: NSLDS.ed.gov
  - Public Service Loan Forgiveness Program (PSLF):
    - Online at: StudentAid.ed.gov/PublicService
    - Call Fedloan Servicing at: 1-855-265-4038
  - Free annual credit report: AnnualCreditReport.com

BE STRATEGIC:
Take Charge of Loan Repayment!

Jeffrey Hanson Education Services
University of San Diego School of Law