Student Loan Repayment Strategy Session

Fernando Gomez
Financial Aid
AGENDA

- Your Federal Loan Portfolio
- Repayment Plans
- After Graduation
- Other Considerations
- Questions & Answers
Your Federal/Private Student Loan Portfolio
Federal student loans are unlike any other type of debt (car, mortgage, credit cards).

They offer flexible repayment terms and conditions, such as a variety of repayment plans, deferment, forbearance and forgiveness.
Financial Aid & Scholarships
UNIVERSITY OF COLORADO ANSCHUTZ MEDICAL CAMPUS

LENDER

vs

SERVICER
National Student Loan Data System

NSLDS.ed.gov
Institutional/Private Loans

- Contact your school to make sure you don’t have any institutional loans.
  - The school will be the lender and they usually have a separate servicer.
- Check your credit report to view any institutional or private loans
  - The private bank will be your lender for private loans.
MASTER PROMISSORY NOTE (MPN)

- Contract with Lender (promise to repay)
- Multi-Loan Feature
- Terms & Conditions
- Rights & Responsibilities

PROMISE TO PAY

16. I promise to pay to ED all loan amounts disbursed under the terms of this MPN, plus interest and other charges and fees that may become due as provided in this MPN. I understand that more than one loan may be made to me under this MPN. I understand that by accepting any disbursement issued at any time under this MPN, I agree to repay the loan associated with that disbursement.
Federal Loans: YOUR RIGHTS

- Prepay loan without penalty
- Request a shorter repayment schedule
- Change plans
- Request deferment or forbearance
YOUR RESPONSIBILITIES

- Pay on time whether you get a bill or not
- Update your contact information
- Complete the Exit Counseling
  - We send you an email reminder
  - Institutional Loans: ECSI

If I do not make a payment on a loan made under this MPN when it is due, I will also pay reasonable collection costs, including but not limited to attorney fees, court costs, and other fees.
## INTEREST RATES & GRACE PERIOD

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Direct</td>
<td>5.84%</td>
<td>5.31%</td>
<td>6.00%</td>
<td>6.60%</td>
<td>6</td>
</tr>
<tr>
<td>Grad PLUS</td>
<td>6.84%</td>
<td>6.31%</td>
<td>7.00%</td>
<td>7.60%</td>
<td>6*</td>
</tr>
<tr>
<td>Health Professions &amp; Disadvantage Students</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>12</td>
</tr>
</tbody>
</table>

*Grad PLUS: Post Enrollment Deferment

- Fixed interest rates for life of the loan. Rate reductions or increases do not impact prior year’s rate.
- Loans previously in repayment have no grace period—these loans enter repayment **immediately** upon graduation.
CAPITALIZATION

Addition of unpaid interest to principal loan balance

Principal

$200,000

Interest

(2 yrs @ 6.00%)

$24,000

Larger Principal

(@ Repayment)

$224,000
How is Interest Calculated?

Addition of unpaid interest to principal loan balance

The amount of interest that accrues (accumulates) on your loan between your monthly payments is determined by a daily interest formula. This formula consists of multiplying your loan balance by the number of days since you made your last payment and multiplying that result by the interest rate factor.

Simple daily interest formula:

Interest Amount = (Outstanding Principal Balance x Interest Rate Factor) x Number of Days Since Last Payment

What is the interest rate factor?

The interest rate factor is used to calculate the amount of interest that accrues on your loan. It is determined by dividing your loan’s interest rate by the number of days in the year.
YOUR ASSIGNMENT

Call your Servicer and ask,

“What is your capitalization policy for the Direct, PLUS, Private loans?”

Obtain exact dates.
CONSOLIDATION

Reasons:
- Reduce # of Servicers
- Eligible for IBR or PAYE
- Eligible for PSLF

Consequences:
- New loan
- New terms & conditions
- Increased Interest Cost
  - Longer term: up to 30 years
- Negative Effect:
  - Loss of subsidies, grace, deferment, cancellation & forgiveness
DELINQUENCY & DEFAULT

Consequences:

- Negative credit history
- Garnished wages and tax refunds
- Ineligible for loan forgiveness
- Lawsuits
- Federal debt collections
- Unable to renew professional license

Solutions:

- Know your loan portfolio
- Auto-pay monthly bill
- Contact loan servicer BEFORE your payment is late
DISCHARGE

- Death or Total/Permanent Disability
- Bankruptcy (rare)
- Identify Theft
- Certain Public Service Professions
- Closed School/False Certification
IMPORTANT CONSIDERATIONS

LIFE:
- Family Obligations
- Financial Goals
- Career Goals

STUDENT LOANS:
- Monthly Payment Amount
- Interest Cost
- Potential Forgiveness
TRADITIONAL PLANS

- **Standard**: 10 years
  - Highest monthly payment—pay off debt quicker
  - Lowest overall interest payments

- **Graduated**: 10 years
  - More expensive than Standard
  - Payment: adjusts every two years

- **Extended**: up to 25 years
  - Lowest monthly payment
  - Most expensive interest
## INCOME-DRIVEN PLANS

<table>
<thead>
<tr>
<th>Program</th>
<th>AKA:</th>
<th>% of Discretionary Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Contingent</td>
<td>ICR</td>
<td>20</td>
</tr>
<tr>
<td>Income-Based</td>
<td>IBR</td>
<td>10-15</td>
</tr>
<tr>
<td>Pay As You Earn</td>
<td>PAYE</td>
<td>10</td>
</tr>
<tr>
<td>Revised PAYE</td>
<td>REPAYE</td>
<td>10</td>
</tr>
</tbody>
</table>

- Payment is recalculated annually using updated income & household size.
- These are “safety net” options, or for PSLF.
What is discretionary income?

The difference between your income and 150% of the poverty guidelines.
## Income Contingent (ICR)

<table>
<thead>
<tr>
<th>Eligible Loans</th>
<th>Monthly Payment and Time Frame</th>
<th>Eligibility and Other Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Subsidized and Unsubsidized Loans</td>
<td>Your monthly payment will be the lesser of</td>
<td>Any Direct Loan borrower with an eligible loan type may choose this plan.</td>
</tr>
<tr>
<td>Direct PLUS Loans made to students</td>
<td>- 20 percent of discretionary income, or</td>
<td>You’ll usually pay more over time than under the 10-year Standard Plan.</td>
</tr>
<tr>
<td>Direct Consolidation Loans</td>
<td>- the amount you would pay on a repayment plan with a fixed payment over 12 years, adjusted according to your income.</td>
<td>You may have to pay income tax on the amount that is forgiven.</td>
</tr>
<tr>
<td>Payments are recalculated each year and are based on your updated income, family size, and the total amount of your Direct Loans.</td>
<td>Good option for those seeking Public Service Loan Forgiveness (PSLF).</td>
<td></td>
</tr>
<tr>
<td>If you’re married, your spouse’s income or loan debt will be considered only if you file a joint tax return or you choose to repay your Direct Loans jointly with your spouse.</td>
<td>Parent borrowers can access this plan by consolidating their Parent PLUS Loans into a Direct Consolidation Loan.</td>
<td></td>
</tr>
<tr>
<td>Any outstanding balance will be forgiven if you haven’t repaid your loan in full after 25 years.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
# Income Based (IBR)

<table>
<thead>
<tr>
<th>Eligible Loans</th>
<th>Monthly Payment and Time Frame</th>
<th>Eligibility and Other Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Direct Subsidized and Unsubsidized Loans</td>
<td>• Your monthly payments will be 10 or 15 percent of discretionary income.</td>
<td>• You must have a high debt relative to your income.</td>
</tr>
<tr>
<td>• Subsidized and Unsubsidized Federal Stafford Loans</td>
<td>• Payments are recalculated each year and are based on your updated income and family size.</td>
<td>• Your monthly payment will never be more than the 10-year Standard Plan amount.</td>
</tr>
<tr>
<td>• all PLUS loans made to students</td>
<td>• If you’re married, your spouse’s income or loan debt will be considered only if you file a joint tax return.</td>
<td></td>
</tr>
<tr>
<td>• Consolidation Loans (Direct or FFEL) that do not include Direct or FFEL PLUS loans made to parents</td>
<td>• Any outstanding balance on your loan will be forgiven if you haven’t repaid your loan in full after 20 or 25 years.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• You may have to pay income tax on any amount that is forgiven.</td>
<td>• You’ll pay more over time than under the 10-year Standard Plan.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Good option for those seeking Public Service Loan Forgiveness (PSLF).</td>
</tr>
</tbody>
</table>
# Pay As You Earn (PAYE)

<table>
<thead>
<tr>
<th>Eligible Loans</th>
<th>Monthly Payment and Time Frame</th>
<th>Eligibility and Other Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Direct Subsidized and Unsubsidized Loans</td>
<td>• Your maximum monthly payments will be 10 percent of discretionary income.</td>
<td>• You must be a new borrower on or after Oct. 1, 2007, and must have received a disbursement of a Direct Loan on or after Oct. 1, 2011.</td>
</tr>
<tr>
<td>• Direct PLUS loans made to students</td>
<td>• Payments are recalculated each year and are based on your updated income and family size.</td>
<td>• You must have a high debt relative to your income.</td>
</tr>
<tr>
<td>• Direct Consolidation Loans that do not include (Direct or FFEL) PLUS loans made to parents</td>
<td>• If you’re married, your spouse’s income or loan debt will be considered only if you file a joint tax return.</td>
<td>• Your monthly payment will never be more than the 10-year Standard Plan amount.</td>
</tr>
<tr>
<td></td>
<td>• Any outstanding balance on your loan will be forgiven if you haven’t repaid your loan in full after 20 years.</td>
<td>• You’ll pay more over time than under the 10-year Standard Plan.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• You may have to pay income tax on any amount that is forgiven.</td>
</tr>
</tbody>
</table>
## Revised Pay As You Earn (REPAYE)

<table>
<thead>
<tr>
<th>Eligible Loans</th>
<th>Monthly Payment and Time Frame</th>
<th>Eligibility and Other Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Direct Subsidized and Unsubsidized Loans</td>
<td>• Your monthly payments will be 10 percent of discretionary income.</td>
<td>• Any Direct Loan borrower with an eligible loan type may choose this plan.</td>
</tr>
<tr>
<td>• Direct PLUS loans made to students</td>
<td>• Payments are recalculated each year and are based on your updated income and family size.</td>
<td>• You’ll usually pay more over time than under the 10-year Standard Plan.</td>
</tr>
<tr>
<td>• Direct Consolidation Loans that do not include PLUS loans (Direct or FFEL)</td>
<td>• If you’re married, both your and your spouse’s income or loan debt will be considered,</td>
<td>• You may have to pay income tax on any amount that is forgiven.</td>
</tr>
<tr>
<td>made to parents</td>
<td>whether taxes are filed jointly or separately (with limited exceptions).</td>
<td>• Good option for those seeking Public Service Loan Forgiveness (PSLF).</td>
</tr>
<tr>
<td></td>
<td>• Any outstanding balance on your loan will be forgiven if you haven’t repaid your loan in</td>
<td></td>
</tr>
<tr>
<td></td>
<td>full after 20 or 25 years.</td>
<td></td>
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</table>
Sample Starting Repayment

- Borrowed $200,000
- Interest rate 6.8%
- Annual income $120,000
- One in household
- Living in CO

<table>
<thead>
<tr>
<th>Repayment</th>
<th>Monthly Amt $</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAYE</td>
<td>848.00</td>
</tr>
<tr>
<td>REPAYE</td>
<td>848.00</td>
</tr>
<tr>
<td>IBR*15%</td>
<td>1,272.00</td>
</tr>
<tr>
<td>ICR</td>
<td>1,798.00</td>
</tr>
<tr>
<td>Standard</td>
<td>2,302.00</td>
</tr>
</tbody>
</table>
Public Service Loan Forgiveness

- 120 months of:
  - Eligible Loans
  - + Qualifying Payments
  - + Qualifying Work
THE GOOD, THE BAD & THE UGLY

GOOD:
- Lower monthly payments
- Eligible payments toward PSLF
- Temporary solution to at least pay something

BAD:
- Annual paperwork for income and household size

UGLY:
- Longer repayment term = much higher interest cost
120 Qualifying Payments

In Qualifying Repayment Plans

...When Applying For & Receiving PSLF

From Federal Student Aid, U.S. Dept. of Education
OTHER LOAN REPAYMENT PROGRAMS

• Indian Health Service - ihs.gov
• National Health Service Corps – nhsc.hrsa.gov
• National Institutes of Health – nih.gov
• US Armed Forces
• Local & State Programs
AFTER GRADUATION

What happens now?
GRACE PERIOD BEGINS

- After graduation until entering repayment
  - Subsidized loans are still interest-free
  - Unsubsidized & PLUS loans continue to accrue interest
- Update your contact information with Servicer
- Organize finances & determine the best repayment plan for you.
- Allows time to secure employment before repayment begins.
- Active duty during grace period—work with your Servicer.

Don’t waste this valuable time!
Private Loans

› Review terms and conditions of loan
  › Due date, interest calculation, deferment/forbearance provisions, capitalization policy, benefits, how your payment is calculated, etc.

› Cosigner release option and requirements

› Prioritize repayment efforts to most expensive interest rate

› Consider auto debit for monthly payment(s)

› Carefully consider consolidation offers

Don’t waste this valuable time!
REPAYMENT NOTIFICATION

› Sent by your Servicer 60-90 days before 1st payment due
› Obtain online account access
› Review repayment plans carefully
› Submit all requested documents promptly
› Return information no later than 30 days before due date
REPAYMENT STRATEGY

- Pay interest prior to capitalization.
- Make payments during grace period as well.
Make voluntary payments to payoff your loan sooner.

When sending voluntary payments:

1) Send as a separate payment
   - Instruct to APPLY NOW
   - Specify the loan to apply it to
     *(high interest rates are the priority)*

2) Verify payment was applied as requested
DEFERMENT

» A period during which repayment of the principal and interest of your loan is temporarily delayed. You do not need to make payments while in deferment.

» Interest may not accrue on Subsidized Direct & Perkins loans, but continue to accrue on Unsubsidized Direct and Grad PLUS Loans.
FORBEARANCE

- If you can’t make your scheduled loan payments, but don’t qualify for a deferment, your loan servicer may be able to grant you a forbearance.

- You may be able to stop making payments or reduce your monthly payment for up to 12 months. Interest will continue to accrue on your loans.
ECSI Exit Counseling (HPSL, LDS)

https://borrower.ecsi.net/

Update Graduation Date:
Registrar’s Office - Barbara Sanchez
PH: 303-724-8059
eMail: CUAnschutz.Registrar@ucdenver.edu
OTHER CONSIDERATIONS
INTEREST PAID

TAX DEDUCTION
STUDENT LOAN INTEREST TAX DEDUCTION

- After end of tax year, Servicer sends you 1098-E form reporting how much interest you paid.
- The Internal Revenue Service (IRS.gov) Publication 970.
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FINANCING & CREDIT
Consider your **Debt to Income (DTI)** ratio. What is debt-to-income ratio?

“Your debt-to-income ratio is all your monthly debt payments divided by your gross monthly income. This number is one way lenders measure your ability to manage the payments you make every month to repay the money you have borrowed.”

(from Consumer Financial Protection Bureau—consumerfinance.gov)
FINANCING (DTI)

Example: Your monthly income is $5,000. Your monthly debt payments are:

- $1,200 Housing
- $100 Auto Loan
- $400 Other (student loans, credit cards, etc.)
- $1,700 Total monthly debt payment

$1,700 divided by $5,000 = 34%
Creditors will also check your credit when you request financing.

Check your credit from the three credit agencies

- Annualcreditreport.com
Why check your credit?

- Are all the creditors listed on your report your actual creditors?
- False reporting occurs, damages your credit, and could take a few months to resolve.
- Resolved credit issues that remain on your credit could prevent you from receiving financing.

(from Consumer Financial Protection Bureau—consumerfinance.gov)
What to look for:

- Errors such as address where you never lived, employers you never worked for, information that should no longer be on your credit.
- Creditors that you don’t recognize or have never received a loan.
- Are your student loans reported correctly and the correct Lender/Servicer listed?

Your credit report should have instructions on how to dispute inaccurate or incomplete information.

(from Consumer Financial Protection Bureau—consumerfinance.gov)
Should I Refinance?

- Before refinancing your student loans with these private agencies, review your situation to see if you really need to refinance and investigate the agency.
- If you’re qualifying for PSLF, refinancing will not work.
- The AAMC has great information regarding refinancing student loans. I’ll email the article to your program to share with you.
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FINANCIAL PLANNING
FINANCIAL PLANNING

› Include spouse/partner in discussions
› Establish monthly budget
  › Mint.com
  › Review regularly & adjust as needed
› Establish emergency fund (3-6 months of pay)
FINANCIAL PLANNING (continued)

- List all of your debts
  - Prioritize & pay most expensive debt first
    - Debt Stacking: primerica.com/public/debt-stacking.html
    - Self-directed debt elimination plan: powerpay.org
Pay Off Debt Wisely

REMEMBER!
Pay higher interest rate loans first.

Variable
Grad PLUS 7.9%
Grad PLUS 7.21%
Stafford 6.8%
Grad PLUS 6.41%
Stafford 6.21%
Stafford 5.41%
Institutional 5%

Review variable rates frequently and adjust payments as necessary.
List your financial goals & timeline:
- Getting married
- Having a baby
- Buying a home
- Purchasing a car

Seek professional guidance at the right time & from appropriate source.
Now

• Complete online exit counseling at studentloans.gov (Direct & PLUS only)
• Organize your loans:
  o Obtain online account access to Servicer’s website.
  o How much do you owe? When is your first payment due?
  o Inquire about capitalization policy (timing).

30 days before graduation

• Contact Servicer for loans without a grace period to find out repayment options.
• Consider paying interest on loans that will capitalize upon graduation.
• Complete necessary exit counseling for institutional loans (Perkins).
• Resolve any holds on your student account.
6 months after graduation

- Update your address & contact information with Servicer(s).
- Work on your personal spending plan.
  - “Student loan payment” from first pay check
- The Employment Certification form can be submitted if you’re working in a 501(c)3 organization and working towards PSLF.
  - Consolidate non-Direct student loans, if necessary.

30 days before end of Grace Period

- Contact Servicer to discuss postponement options, or to
  - Select repayment plan:
    - Complete all documentation for income-driven repayment.
    - Sign up for Automatic Payments (Auto Debit/Pay)
WARNING!

Manage Your Debt.
Don’t Let It Manage You.
Location: Education 2 North, 3rd Flr
PH: 303-724-8039
eMail: Financial.Aid@ucdenver.edu