Understanding and Managing your Student Loans and Repayment

Financial Literacy Programs
University of Colorado Denver

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Financial Literacy & Wellness
After this presentation, you will be able to evaluate:

• Your student loans
• Understand repayment options
• Deferment and Forbearance Option
• Loan Consolidation
• Loan Forgiveness Program
• Consequences of Loan Default
What are Student Loans?

• Self-help **Financial Aid**

• Money to use for educational and living expenses

• A Debt - MUST be paid back

• Payments can be deferred while enrolled in school at least half-time

• Repayment begins 6 months after last day of at least ½ enrollment
Types of Student Loans

- Federal Loans
  - Stafford (Direct) Loans
    - Subsidized and Unsubsidized
  - Parent PLUS loans
  - Grad PLUS loan
- Alternative (Private) Student Loans
- Institutional student loans
Important Terminology

• **Servicer**
  – Third-party agency hired to handle student loan accounts for federal government

• **Direct Loans (DL) vs. FFELP**
  – Direct:
    • Federal student loans made and guaranteed by the U.S. Department of Education called, “Direct Loans”
  – Federal Family Education Loan Program (FFELP):
    • Federally guaranteed loans funded by private entities (banks). Program replaced by DL in 2010.
Important Terminology

• **Principal**: Total sum of money borrowed plus any capitalized interest

• **Interest**: an amount charged to the borrower by the lender for the use of advanced funds (a percentage of the unpaid principal balance due).

• **Capitalization**: The amount of unpaid accrued interest that will be added to principal balance of loan. This will increase the amount borrowed and increase monthly payment.
The National Student Loan Data System is available for all students that have received Federal student aid (including loans).

Where you can find information regarding your federal student loans: terms, lender and servicers contact information, total debt and interest, disbursement and payments, loan status, grant disbursements, etc.

Does not include private loans.
Institutional Loans

• Loans through the school (non-federal loan and the University is the servicer)
• Not able to consolidate
• More flexibility for lending institution
• Not eligible for ICB (income/contingent based repayment)
• Managed separately from all federal and private loans
Federal **Direct Stafford Loan**

- A complete and valid FAFSA is required
- Fixed interest rate (varies annual based on T-bill) (current rate 4.45%)
- 6 month grace period before repayment
- Required Master Promissory Note & Entrance Counseling to disburse
- Borrower may be charged an origination fee
- Can be awarded **subsidized** (undergraduates only) or **unsubsidized** or BOTH
- Flexible repayment plans with **NO PRE-PAYMENT PENALTIES**
- Deferment and forbearance options (in case of financial hardship)
Federal PLUS Loans (2 types)

- Available to parents (PLUS) of dependent undergraduate students and to graduate students (Graduate PLUS)
- Can request amounts up to Cost of Attendance (minus other types aid)
- Interest rate(s) – currently fixed at 7%
- Various Repayment options
- Approval based on “Adverse Free” credit history
- Approximately 4% in loan fees (before disbursement)
- Co-signer options available (if necessary)
- If denied, a dependent student may request additional Unsubsidized Stafford Loan (Parent PLUS Loan denials only).
- Must re-apply annually or as needed during the AY.
Alternative *(PRIVATE)* Student Loans

• Consumer loans – not federally guaranteed or protected
• Borrowed in the student’s name (May require a co-signer)
• Based on credit criteria established by the lender
• Variable but competitive interest rates
• Interest accrues immediately
• Repayment usually begins 6 months after enrollment ceases or graduation
• Fewer repayment and forbearance/deferment options
### Examples of Monthly Payments

based on 6.8% interest rate with standard 10 yr repayment period

<table>
<thead>
<tr>
<th>Principle</th>
<th>Payment (estimates)</th>
</tr>
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<tr>
<td>$3,500</td>
<td>$50 per month</td>
</tr>
<tr>
<td>$5,000</td>
<td>$58 per month</td>
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<td>$81 per month</td>
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<td>$116 per month</td>
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</tr>
<tr>
<td>$50,000</td>
<td>$581 per month</td>
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</table>
Types of Federal Loan Repayment Options

• Standard
• Graduated
• Extended
• Income-based (IBR)
• Revised Pay-as-you-earn (REPAYE)
• Pay-as-you-earn (PAYE)
• Income –sensitive (ISR) – FFELP Loans only
• Income-Contingent (ICR) – Direct Loans only

Reminder: No pre-payment penalties!
Federal Repayment Plan Options

*(Select a plan that fits your needs and budget)*

- **Standard** (most cost effective plan)
  - 10 year repayment
  - Minimum $50
  - Plan automatically assigned by lender
  - Less Interest paid over time
Federal Repayment Plan Options (Continued)

(Select a plan that fits your needs and budget)

• **Graduated** (initially interest only)
  – 10 year repayment
  – Starts with lower payment which increases over time
  – Payment amount adjusts every two years
  – More interest paid
Federal Repayment Plan Options (Continued)

(Select a plan that fits your needs and budget)

• **Extended** Repayment
  – If more than a $30,000 loan balance
  – Up to 25 years repayment plan
  – Payment lower than the standard plan due to extension
  – More interest accrues over time
Federal Repayment Plan Options (Continued)

*Select a plan that fits your needs and budget*

- **Income-Based (IBR)**
  - Based on household AGI, family size, your state of residence, 10% or 15% of discretionary income*
  - Experiencing a “partial financial hardship” (PFH)**
  - Spouse loan debt considered in monthly payment
  - Recalculated annually (assumed income changes)
  - Up to 25 years to repay (after 20 or 25 years, balance is forgiven)
  - Pay income tax on any amount “forgiven”
  - Payment lower than standard repayment amount, $0, or interest only (may pay more for the loan overtime).

**NOTE:**

* Depending on if you have pre-existing loans and/or when you took out your first loan.

** PFH: when the total annual amount due under a standard 10-year repayment plan is greater than 15% of the difference between the borrower’s AGI and 150% of the poverty guideline for the borrower’s family size.
Federal Repayment Plan Options (Continued)

(Select a plan that fits your needs and budget)

- **Revised Pay-As-You-Earn**
  - Monthly payment 10% of discretionary income
  - Payment recalculated yearly based on updated income and family size
  - Loan forgiveness after 20 or 25 years.
  - Spouse loan debt considered
  - Good option if seeking Public Service Loan forgiveness
Federal Repayment Plan Options (Continued)
(Select a plan that fits your needs and budget)

- Pay-As-You-Earn
  - Monthly payment based on household AGI, family size, your state of residence & 10% of discretionary income
  - Experiencing a “partial financial hardship” - (PFH*)
  - Must be a new borrower on or after 10/1/2007 and at least one DL disbursed loan on or after 10/1/2011
  - Loan debt must be more than income
  - Payment may be less than interest that accrues monthly or $0 and never higher than standard payment plan amount.
  - Up to 20 years to repay (balance forgiven after 20 years)
  - Spouse loan debt considered
  - Recalculated annually (income and family size changes)

*PFH-10% of discretionary income, the difference between the borrower’s AGI and 150% of the poverty guideline for your family size and state of residence.
Federal Repayment Plan Options (Continued)
(Choose a plan that fits your budget)

• **Income Sensitive** (FFELP loans only)
  – Up to 15-years to repayment
  – Monthly payments based on gross annual income
  – Monthly payment amount vary from lender to lender
  – You will pay more over time than a standard 10-year repayment plan
Federal Repayment Plan Options (Continued)

(select a plan that fits your needs and budget)

• **Income Contingent** (Direct Loans only)
  – Payment amount contingent upon expected income, family size and Direct Loan (DL) amount
  – Maximum payment up to 20% of earnings above state poverty level
  – Payment amount increases as income increases
  – Up to 25 years repayment
  – Balance forgiven after 25 year of qualified* payments
  – May have to pay income tax on the balance forgiven
  – Parent Plus Loan borrowers have the Direct Consolidation loan option.
Repayment helpful tools

(loan info and repayment calculators)


• FSA Repayment Estimator:
  https://studentloans.gov/myDirectLoan/mobile/repayment/repaymentEstimator.action

• https://studentloans.gov
• Finaid.org
• Mappingyourfuture.org
• IBRRinfo.org
• NSLDS.ed.gov
Federal Direct Consolidation Loans

What’s the point?

*Combines several student or parent loans into one loan with one servicer

*extends the repayment timeframe
Consolidation Loans

• Up to 30-year repayment
• Lower and single monthly payment
• Fixed Interest rate (no cap)- based on weight average interest rate on loans being consolidated
• Repayment begins 60 days after loan is disbursed (See NSLDS)
• Type of loans that can be consolidated (FFELP and Direct Stafford, PLUS and SLS, LSL, Perkins, Health Professional Student Loans, NSL, HEAL, and Guaranteed Student Loans)*
• Alternative (PRIVATE) Student loans cannot and should not be included
• Lose some deferment, forbearances and forgiveness options

**Warning:** Do not consolidate loans with spouse loans.

*Note: Parent PLUS loans of dependent students CANNOT be consolidated within a student’s consolidation loan. Information subject to change.
How and When to Consolidate Your Student Loans (If necessary)

• How?
  – Apply at www.studentloans.gov
  – Loan Consolidation Call Center: 1-800-557-7392

• When?
  – After a student graduates, leaves school, or drop below half-time status
  – Must have at least one Direct or FFELP loan in grace or repayment
  – If indicated in the grace period when applying, loan servicer will wait to process to preserve grace period so that you don’t lose it.

Note: If in repayment, you must continue to make original payments until notified by servicer that loans have been paid off by your consolidation loan.
How to calculate the interest rate on a Federal Direct Consolidation Loan?

Loan Default Consequences

- Reported to credit bureau
- Loan becomes immediately due in full
- Ineligible to receive state or federal financial aid
- Federal and state income tax refunds withheld
- Wages may be garnished
- Assigned to collection agency or federal government
- Borrower responsible for attorneys fees and collection costs
- Suspension of professional license or certificate
Debt Management Strategies

• If borrowing an unsubsidized loan, pay the interest while you are in school
• When possible, pay extra on your student loan during repayment and during grace period
• Take advantage of any borrower benefits offered by your student loan lender (Ex. Automatic Deduction)
• Contact the Lender/Servicer if you experience financial difficulties or have any questions about your repayment options.
• Always ensure the servicer has correct/updated contact info.
Deferment and Forbearance
Deferment and Forbearance Options

*Having difficulties paying your student loans under your current repayment options.

*These are LAST RESORT options.

*Loan servicers will review your payment options with you before allowing you to apply for a deferment or forbearance.

*Contact loan servicer for specifics.
Deferments

• Temporarily postpone or lower payments for up to 12 months

• Borrower-Specific entitlements
  (must provide documentation to demonstrate eligibility)

• Co-signer or Endorsers are not eligible for deferments (See Forbearances)

• Defaulted borrowers can be granted a deferment to reverse a defaulted loan only if the deferment eligibility began before the loan defaulted.

• In some cases, defaulted borrowers may not be eligible, unless they have made acceptable payment arrangements with the servicer (REHAB)
Other Deferment Conditions

• Enrolled in school at least half-time
• Deployed or actively on Military Service
• Full-time in a graduate Fellowship Program
• Attending a rehabilitation training Program
• Unemployed (must be actively seeking employment but unable to find FT work in the U.S. – 3 year limit)
• Experiencing an Economic Hardship (Income less the larger of minimum wage or 150% of poverty level of HH size and state of residence – 3 year limit)
Forbearances

- Temporarily postpone or lower payments for up to 12 months
- Possible option if don’t qualify for a deferment
- Interest will continue to accrue on all loans including subsidized loans.
Two Types of Forbearances

• Mandatory
  – Serving in a medical or dental internship or residency
  – Performing AmeriCorps service
  – Performing service that qualifies for loan repayment by the Department of Defense
  – In a qualifying teacher loan forgiveness service

• Discretionary
  – Experiencing a financial hardship
  – In poor health
  – Borrower must request forbearance and provide supporting documentation
  – Borrower is responsible for paying all interest that accrues during a forbearance period (unpaid interest will be capitalized)
Calculate the Cost of a Deferment or Forbearance

- Calculate the Cost of a Deferment/Forbearance
  - [http://www.nelnet.com/All-Calculators/](http://www.nelnet.com/All-Calculators/)

Note: Interest may accrue during a deferment and does accrue during a forbearance.
Public Service Loan Forgiveness (PSLF)

* Encourages individuals to enter and continue to work full-time in public service jobs.
* Only Direct Loans apply.
* May qualify for forgiveness of remaining DL balance after 120 qualifying payments while employed full-time by certain public service employers.
* After 10 years (120 payments), left over balance is forgiven.
* FFELP or Perkins Loan Programs may do a Direct Consolidation Loan to take advantage of PSLF Program (Other conditions applies).
* Must not be in default on loans that will be included in the PSLF application.

**Note:** Qualifying payments: 120 on-time, full, scheduled, monthly DL payments made after 10/1/07 under a qualifying payment plan while working FT at a qualifying public service organization.
PSLF Qualifying Employment

Any employment with a federal, state, or local government agency, entity, or organization or not-for-profit organization that provides certain specified public services and has been designated as tax-exempt by the Internal Revenue Service (IRS) under the Section 501(c)(3) of the Internal Revenue Code (IRC).

NOTE: Public services include emergency management, military service, public safety or law enforcement services; public health services; public education or public library services; school library or other school-based services; public interest law services; early childhood education; public service for individuals with disabilities and the elderly. Exclusions include labor unions or partisan political organizations.
PSLF
(Other Important Info to Consider)

- Only borrowers who are making reduced monthly payments through the IBR, PAYE, or ICR repayment plans will have a remaining balance after making 120 payments on a loan.
- Parents who received a Direct PLUS Loan may qualify for forgiveness of a PLUS loan, if the parent borrower is employed by a public service organization (additional conditions may apply).
- To consolidate a Federal Perkins Loan or Health Professions or Nursing Loans in to a Direct Consolidation loan, you must consolidate at least one FFELP loan or DL.
- The loan servicer for the PSLF Program is Fed Loan Servicing (PHEAA).
- REMEMBER, to know the type of loans you have borrowed, check your records on the NSLDS website at [www.nslds.ed.gov](http://www.nslds.ed.gov).
PSLF Contact Information

For detailed and specific information regarding the PSLF Program, go to:


OR

https://myfedloan.org/pslf
The National Student Loan Data System (NSLDS) is available for all students that have received Federal student aid (including loans).

At this website, you can find information regarding your federal student loans, lender and servicers name and contact information, total debt and interest, disbursement and payments, loan status, grants, etc.
Review:

- Evaluate student loan repayment options
  - Know which kind of loans you have
  - Know your balance, lender and terms
  - Choose the repayment option that’s right for you
  - Avoid default
  - Understand your deferment, forbearance, consolidation and loan forgiveness options
Borrow Wisely ......

*Only borrow what you need!*

Remember ... 

you must pay it back with interest!
??QUESTIONS??
Understanding and Managing Your Student Loans

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