The Joy of Student Loans

Peer Financial Counselor
Powercat Financial Counseling

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Our Agenda

- The Basics of Student Loans
- Repayment Options
- Repayment Tips
- Tax and Credit Implications of Loans

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The Basics

- Types of loans
  - Federal – backed by the Government
    - Go to www.nslds.ed.gov for a list of federal loans
      - Note: Parent Plus loans are under parent's SSN
    - KNOW WHO YOUR LOAN SERVICERS ARE!!!
    - Direct federal loans vs. FFEL federal loans
    - Perkins, Stafford unsubsidized, Stafford subsidized, PLUS loans
  - Private
    - Go to www.annualcreditreport.com if unsure of lender
    - Search engine: FASTChoice on OSFA website

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Go to
www.studentaid.ed.gov
for all information regarding federal student loans

Grace Period & Deferment

- No payments due now…
- Grace period of 6, 9, or 12 months after graduation
    - Remember you have only 1 grace period!
- In-school deferment (enrolled at least half-time)
    - Interest continues to accrue on unsubsidized loans (and PLUS loans)
    - If you don't pay the interest, it may be capitalized and added to the principal at the end of your grace period

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Repayment Plans

- Standard: Fixed payment each month for 10 years
- Graduated: Still 10 years, but payments start low, then increase every few years
- Extended: Significantly lower payments for 12-30 years, interest costs increase.

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Repayment Plans (cont.)

- Graduated Extended: Payments start very low, then increase every 2 years over an extended period
- Income-Driven or Pay As You Earn: Monthly payments are based on income, must confirm annually
- Consolidation: Not a true repayment plan, but may benefit you

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Income Based Repayment

- Loan payments capped at percentage of discretionary income
  - Discretionary income is defined as AGI minus 150% of the Poverty Line for the family size
  - Currently 15% of discretionary income
  - $0 payment if income < 150% of the poverty line
- Remaining debt and interest forgiven after 25 years in repayment
- Forgiveness is treated as taxable income

Income Based Repayment

See IBRinfo.org for more information

Pay As You Earn Repayment

- Eligible if you are a new borrower of a loan after 10-1-11 and did not owe on loans as of 10-1-7
- Only eligible on Direct loans
- Repayment amount is 10% of the difference between your AGI and 150% of the poverty guidelines
- Remaining balance forgiven after 20 years of qualified payments
- Forgiveness is treated as taxable income

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What is the repayment period?

Loan Balance	Maximum Term
$10,000 to $19,999	15 Years
$20,000 to $39,999	20 Years
$40,000 to $59,999	25 Years
More than $60,000	30 Years

An Example

Standard Plan

Loan Balance	$40,000.00
Term	10 Years
Monthly Payment	$ 460.32
Total Repaid	$55,238.63

Extended Plan

Loan Balance	$40,000.00
Term	25 Years
Monthly Payment	$ 277.63
Total Repaid	$83,288.09

Extended Graduated Plan

Loan Balance	$40,000.00
Term	25 Years
Monthly Payment	$230 - 387
Total Repaid	$89,697.80

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Loan Term	Reduction in Size of Monthly Loan Payment	Increase in Total Life-of-Loan Interest
Extended Repayment – 12 years	12%	22% (factor of 1.22)
Extended Repayment – 15 years	23%	57% (factor of 1.57)
Extended Repayment – 20 years	34%	118% (factor of 2.18)
Extended Repayment – 25 years	40%	184% (factor of 2.84)
Extended Repayment – 30 years	43%	254% (factor of 3.54)

Impact of extended repayment on monthly loan payment and total interest paid as compared with standard 10-year repayment

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Consolidation

- What is loan consolidation?
- What interest rate will you qualify for?
  - Is it fixed or variable?
- When should you consolidate?
- What is the repayment period?
- What loans can be consolidated?
- What other factors should you consider?

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Consolidation (cont.)

- **What is loan consolidation?**
  - A practical tool that enables you to bundle all of the federal loans you received to finance your college education into a single loan with a fixed interest rate.
  - When your consolidation loan is issued, your lender pays off the outstanding balances of all the loans you put in the consolidation. You refinance your education debts into one monthly payment that might be lower.
  - Your repayment period may be extended up to 30 years depending on the amount of your consolidated loan

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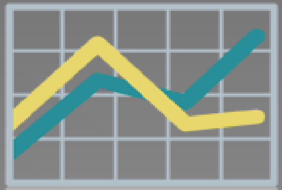
Consolidation (cont.)

- Things to Consider:
  - Whether you'll lose any loan benefits such as interest rate discounts or rebates.
  - Whether you'll lose any discharge or cancellation benefits if you include a Perkins Loan in your consolidation loan.
  - Consolidation may increase your total cost of repaying your loan because you may have a longer period of time to repay.
- **Once you consolidate it cannot be revoked for any reason.**

Consolidation (cont.)

- What interest rate will you qualify for?
  - Rate will never exceed 8.25%
  - Rate is fixed for the life of the loan
  - Rate is based on the weighted average of the interest rates on all of the loans you consolidate, rounded up to the nearest 1/8 of 1%



Consolidation (cont.)

- When should you consolidate?
  - Should you consolidate immediately after graduation or wait until the rate changes?
  - What do you think the rates going to do?
  - Most programs use the day your application is received to determine what rate applies.

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Consolidation (cont.)

What loans can be consolidated?

- SS - Subsidized Federal Stafford Loans & Guaranteed Student Loans (GSL)
- DSS - Direct Subsidized Stafford Loans
- DUS - Direct Unsubsidized Stafford Loans
- DPLUS - Direct PLUS Loans
- DUCON - Direct Unsubsidized Consolidation Loan, including Direct PLUS Consolidation Loans
- US - Unsubsidized and Nonsubsidized Federal Stafford Loans
- NSL - Federal Nursing Loans
- HEAL - Health Education Assistance Loans
- PERK - Federal Perkins Loans, formerly Nations Defense/National Direct Student Loans (NDSL)
- PLUS - Federal PLUS (Parent) Loans
- SCON - Subsidized Federal Consolidation Loans
- UCON- Unsubsidized Federal Consolidation Loans
- SLS - Federal Supplemental Loans for Students (formerly Auxiliary Loans to Assist Students (ALAS) and Student PLUS Loans)

Consolidation Advantages

- Simplifies record-keeping
- Variable–rate education loans are converted to fixed-rate loans
- Can significantly reduce your monthly payments because consolidation allows you to stretch your repayment period from the standard 10 years to up to 30 years
- Lowers debt-to-income ratio

Disadvantages

- Extending repayment period increases total interest payments
- If you are in a situation where the military [or some other organization/entity] will repay all or a portion of your loans, do not consolidate the loans which will be forgiven

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Other Factors to Consider

- Repayment begins immediately (this can potentially cut some time off your deferment period)
- Loan can be prepaid without penalty
- Repayment plan may be changed
- The longer the repayment term, the higher the total finance charges
- www.loanconsolidation.ed.gov regarding Federal Direct Consolidation loans

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Other Factors to Consider

- It may make sense to make smaller payments over a longer period of time if the money can be put to good use (down payments, car loans, etc.)
- You don't have to extend repayment period
- Any time you receive a new federal loan (one that has not been consolidated), you have the opportunity to reconsolidate all your eligible loans. This is the only way you can consolidate more than once.
- You may be eligible for loan forgiveness programs
- Use calculators within SALT or at http://www.finaid.org/calculators

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Repayment Tips

- Create a student loan checklist that lists all of your student loans. A blank form is available at www.finaid.org/loans/studentloanchecklist.phtml
- Put all your paperwork for each loan in its own file folder labeled with the lender name, date borrowed, original loan balance and loan id
- Notify the lender about any changes in address or contact information
- Put a note in your calendar at least a week before your first payment is due

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- Don’t Miss Payments
- Set up Automatic Monthly Payments
- Accelerate Payment on High Interest Debt First

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Taxes and Credit

- Generally, Student Loan **Interest** is deductible (don't have to itemize)

- Repayment will impact your credit

Dealing with Financial Difficulty

- Use a temporary suspension of loan payments for short-term financial difficulty
  - Economic Hardship Deferment (3 year limit)
  - Forbearances (5 year limit)
- Change repayment plans for longer-term financial difficulty
  - Income-based repayment reduces the monthly payment based on your discretionary income
  - Extended repayment reduces the monthly payment by increasing the loan term to 12-30 years
- All of these options increase the cost of the loan

Temporary Suspension of Payments

- Difference between deferment and forbearance
  - Government pays interest on subsidized loans during deferments only
  - Borrower responsible for interest on unsubsidized loans (deferment) and all loans (forbearance)
  - Borrower may defer interest by capitalizing it, increasing the amount owed
- Best for short-term problems, such as medical or maternity leave or unemployment, or as a last resort alternative to default
- Look into income-based repayment plans first

Public Service Loan Forgiveness Program

- Direct loan program only so must consolidate FFEL loans into Direct loan program for them to be eligible
- Make 120 monthly payments while employed full-time in a public service job
- Apply for forgiveness of remaining balance after you qualify
- Maximize forgiveness with income based repayment plans
- Use employment certificate to keep track
- Amount forgiven under PSLF may not be taxable

Dealing with Lenders/Servicers

- Keep notes during any telephone call
  - Ask for the name of the person you talk to
  - Ask for confirmation numbers for any changes
  - Ask for written confirmation and call the lender if you don't get a response within a week
- Continue paying the loans until you have written confirmation of a deferment or forbearance
- Send forms by certified mail, return receipt requested

Penalties for Defaulting on Loans

- Garnishment of up to 15% of wages and Social Security benefits
- Income tax refunds may be intercepted (offset)
- Collection charges of up to 25% deducted from each payment, slowing repayment trajectory
- Can’t renew professional licenses
- The default will prevent you from getting credit cards, auto loans and mortgages and may make it harder to rent an apartment or get a job
- You will be ineligible for more federal student aid

Budget for Repayment Early On

MONTHLY STUDENT LOAN DEBT SERVICE CALCULATION:	
Annual Gross Salary (assumption)	$ 60,000
Less 25% for Taxes/FICA (estimate)	$ 15,000
Annual Net Salary	$ 45,000
Monthly Net Take Home Salary	$ 3,750
Estimated Mo. Student Loan Payment - Use FinAid.org Calculator	$ 288
Monthly Net Salary AFTER Student Loan Payment	**$ 3,462**
Other Monthly Expense Estimates:	
Rent/Utilities	$ 950
Food	$ 300
Medical Insurance/medicine/Dr bills/Dentist bills	$ 300
Transportation	$ 400
Clothing	$ 150
Subtotal Other Monthly Expenses	$ 2,100
Monthly Balance Left For "Other" Expenses & Emergencies	**$ 1,362**

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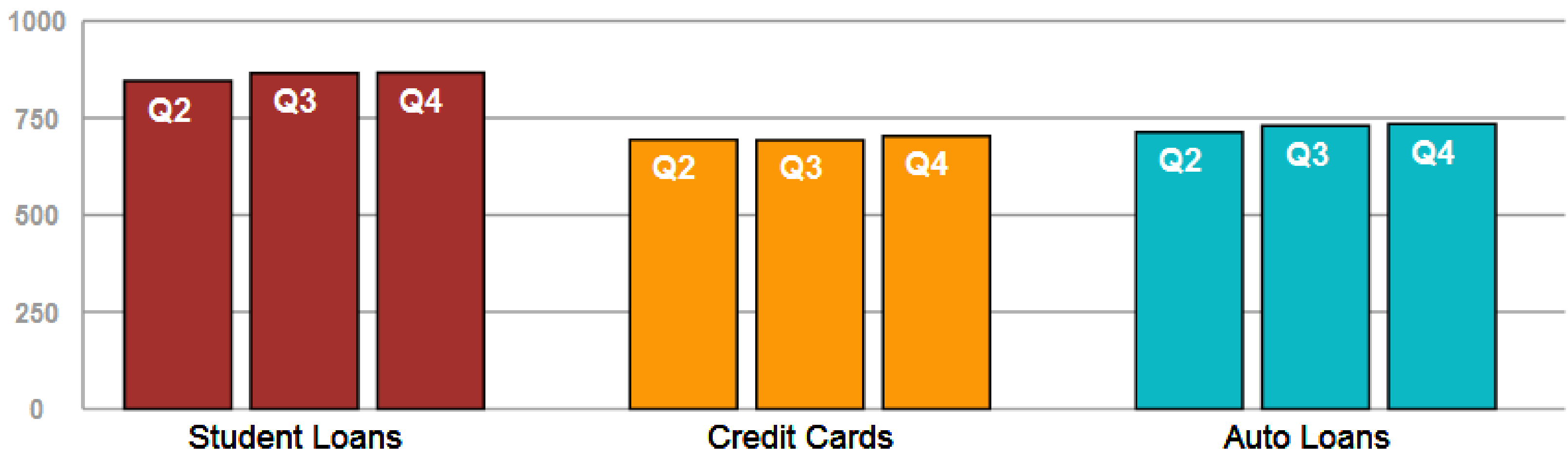
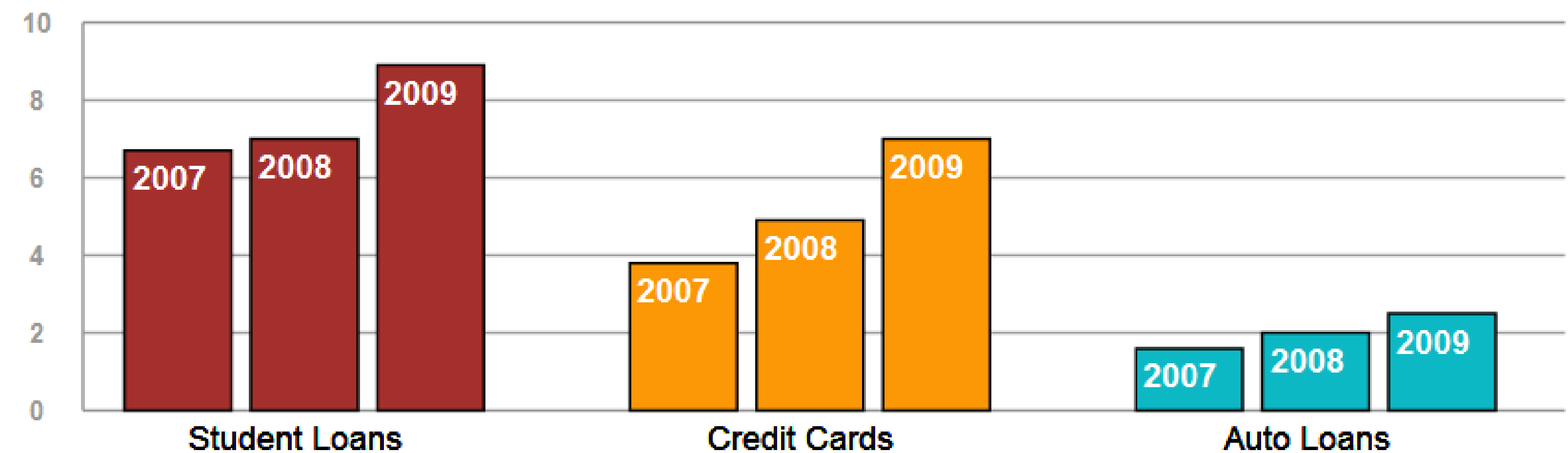
Total Debt by Type (billions)

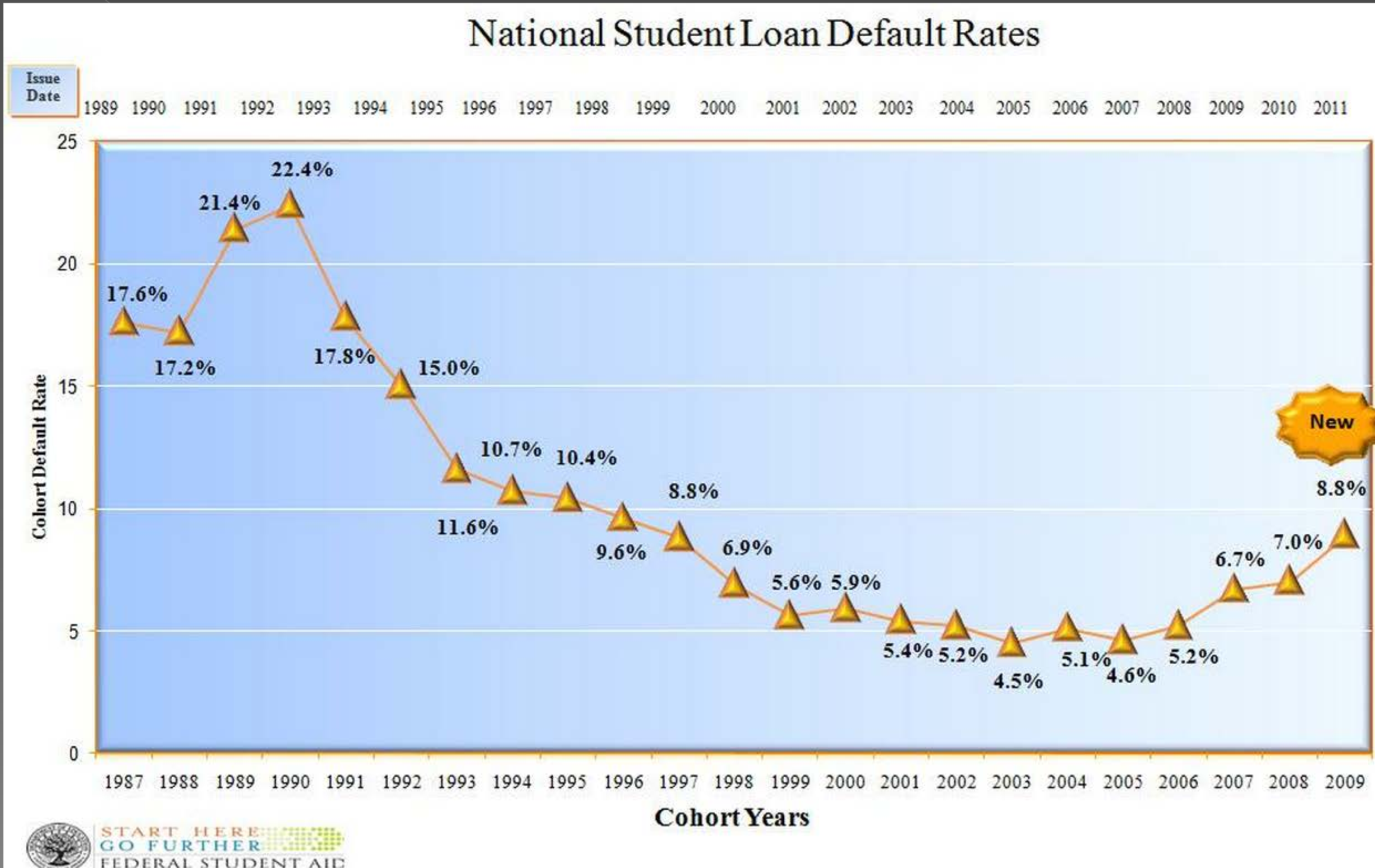


Source: Federal Reserve Bank of New York

Default Rates (percent)



Source: S&P/Experian Consumer Credit Default Indices



National Student Loan Default Rates
Issue Date
1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011
Cohort Default Rate
25
20
15
10
5
0
17.6%
17.2%
21.4%
22.4%
17.8%
15.0%
11.6%
10.7%
10.4%
9.6%
8.8%
6.9%
5.6%
5.9%
5.4%
5.2%
4.5%
5.1%
4.6%
5.2%
6.7%
7.0%
8.8%
New
1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009
Cohort Years
START HERE
GO FURTHER
FEDERAL STUDENT AID

Education pays ...

Education pays in higher earnings and lower unemployment rates

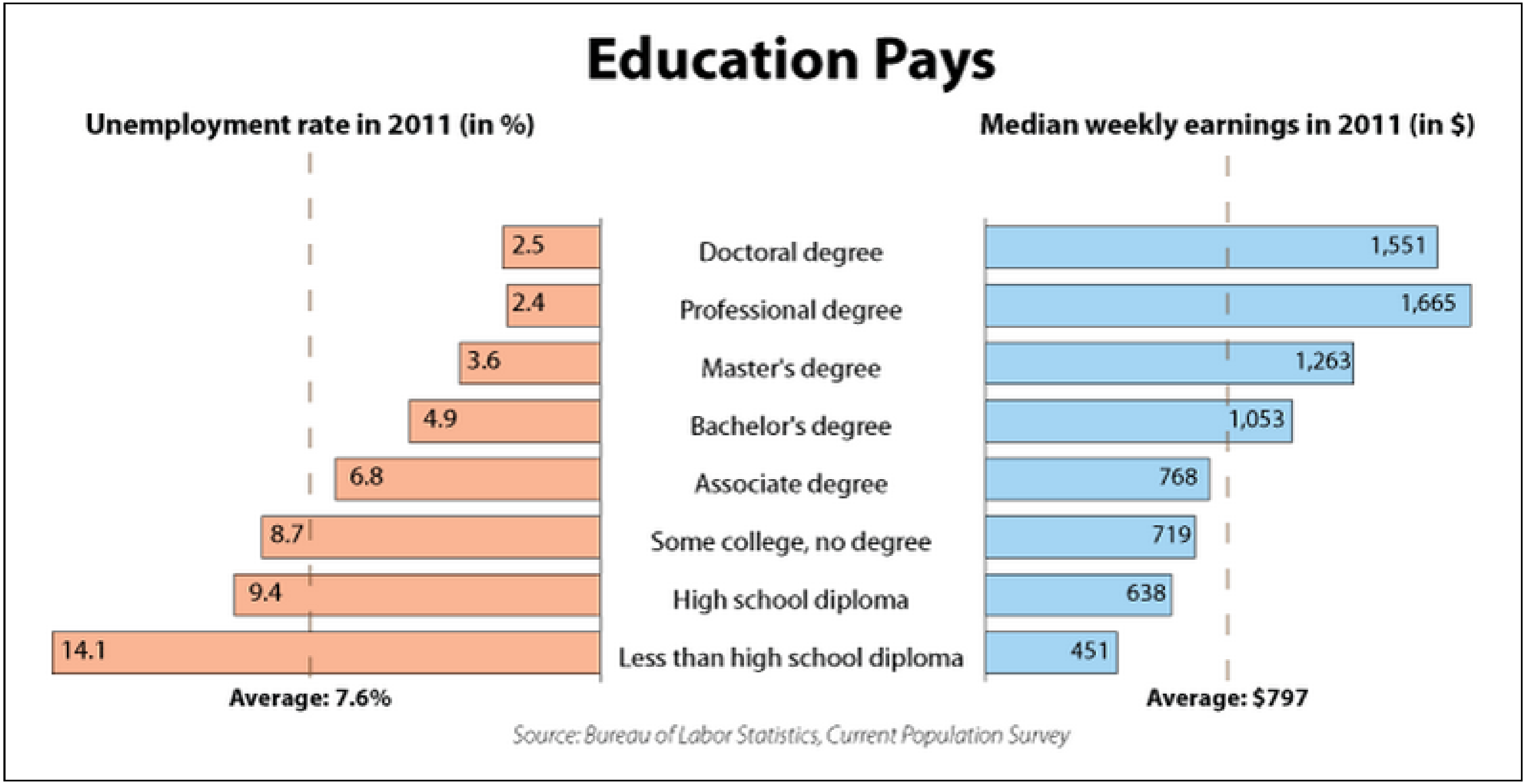


Chart data [TXT]

Note: Data are for persons age 25 and over. Earnings are for full-time wage and salary workers.

Source: Bureau of Labor Statistics, Current Population Survey.

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