



LOAN REPAYMENT STRATEGIES

**Be Ready!
Develop a Plan!**

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Majority of law students ...

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**... now graduate with an
EDUCATIONAL MORTGAGE**

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What do you think?

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

Did you know? Interest is accruing as **SIMPLE** interest!

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- Interest starts accruing on **unsubsidized** student loans when funds are disbursed, **but it is NOT compounding!**
 - Not paying interest on the accruing interest while you are in school
 - Accrued interest is capitalized when loans enter/re-enter repayment
- Paying the accruing interest while in school is not the best use of your funds financially
 - If you have the funds, it is better to reduce the amount you are borrowing rather than paying the accruing interest.**
 - It is the principal balance that is accruing interest while you are in school—not the interest itself.

Federal student loans are flexible and safe ...

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- You should never have to miss a payment or default
 - Payment relief options exist that provide financial "safety nets"*
- Payments can always be less than 15% of your AGI
 - Flexible payment options exist including income-driven repayment (IDR) plans that can limit debt-to-income ratio impacts*
- Debt should be gone within 25 years or less
 - Portion of debt could be forgiven if not fully repaid*
- No penalty for prepayments
 - Can always pay extra or make payments when not due to reduce total interest paid and get debt paid off more quickly if that is your goal*

Your "educational mortgage" should not prevent you from:

- Pursuing your desired career
- Achieving your financial goals

What should you do?

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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

- Allocate "extra cash" for other expenses (e.g., FUTURE bucket)*

Loan Repayment Options

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Loan Repayment Options

Stafford, PLUS and Consolidation Loans

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	Options	Payment Structure	Payment Period
Based on DEBT	Standard	Fixed	10 years
	Graduated	Tiered	10 years
	Extended	Fixed or tiered	25 years
Based on INCOME	Pay As You Earn (PAYE) <i>(Direct only)</i> <small>New IBR plan (10% IBR) for "new borrowers" as of 7/1/2014</small>	Adjusted annually based on: - Household AGI - Household size - Poverty guideline - State of residence 10% of annual "Discretionary Income"	20 years* <small>*Any debt remaining after 20 years is cancelled (amount cancelled taxable)</small>
	Income Based (15% IBR)	Adjusted annually based on: - Household AGI - Household size - Poverty guideline - State of residence 15% of annual "Discretionary Income"	25 years** <small>**Any debt remaining after 25 years is cancelled (amount cancelled taxable)</small>
	Income-Contingent (ICR) <i>(Direct only)</i>	Adjusted annually based on: - Household AGI - Household size - Total amount of Direct Loans Approx. 20% of discretionary income	25 years** <small>**Any debt remaining after 25 years is cancelled (amount cancelled taxable)</small>

PAYE

"New Borrower" Requirement

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- Must be a "new borrower" on or after October 1, 2007 (10/1/2007)
 - No Direct or FFEL loans before 10/1/2007, OR
 - No outstanding balance on an existing Direct or FFEL loan when you borrowed your first Direct or FFEL loan on or after 10/1/2007
- IBR (15% plan) is the next best income-driven repayment plan if you are **not** a "new borrower"

PAYE

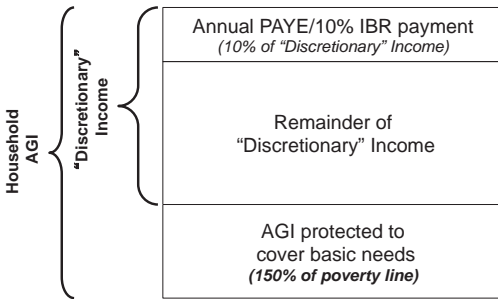
New Rules/New Option Coming!

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- ❑ U.S. Department of Education is developing new eligibility rules for PAYE/new option
 - ❑ Additional 5 million “existing” borrowers may become eligible to use PAYE or new option by January 2016
- ❑ Contact your loan servicer in January 2016 if you are an “existing” borrower (not a “new borrower”) and not currently eligible for PAYE
 - ❑ Ask if you have become eligible to use PAYE/new option
 - ❑ If so, ask how you can change to PAYE/new option

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

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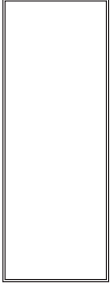
Sample Monthly Payments PAYE/10% IBR vs. 15% IBR

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Household AGI	2015 Monthly PFH Payment in 48 states					
	PAYE/10% IBR HH Size = 1	PAYE/10% IBR HH Size = 2	PAYE/10% IBR HH Size = 3	15% IBR HH Size = 1	15% IBR HH Size = 2	15% IBR HH Size = 3
\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$10,000	\$0	\$0	\$0	\$0	\$0	\$0
\$20,000	\$20	\$0	\$0	\$29	\$0	\$0
\$30,000	\$103	\$51	\$0	\$154	\$76	\$0
\$40,000	\$186	\$134	\$82	\$279	\$201	\$123
\$50,000	\$270	\$218	\$166	\$404	\$326	\$248
\$60,000	\$353	\$301	\$249	\$529	\$451	\$373
\$70,000	\$436	\$384	\$332	\$654	\$576	\$498
\$80,000	\$520	\$468	\$416	\$779	\$701	\$623
\$90,000	\$603	\$551	\$499	\$904	\$826	\$748
\$100,000	\$686	\$634	\$582	\$1,029	\$951	\$873

Picking Your Plan

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When repaying Federal Direct Loans, *faster may not be better*

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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 from an “**opportunity cost**” perspective

Consider “Opportunity Cost”

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- 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

Other Potential Uses

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You must decide how to allocate your monthly income among four **“buckets”** ...



The “Future” Bucket

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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 their **children’s education**
 - **Minimum needed uncertain**—may need to start paying for children’s education much sooner than expected (e.g., elementary school)
- Saving for the down payment/closing costs for a **home**
 - **Minimum of 10% of purchase price**



24 Develop your “Action Plan”

Don’t leave it to “chance” – create a strategic plan to repay your “educational mortgage”

Your Action Plan 4 Steps

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1. Take stock of your loan portfolio
 2. Determine when repayment begins
 3. Pick your repayment plan
 4. Evaluate if **"Consolidation"** is beneficial
- Remember, you must repay all that you owe!*

What do you need to know?

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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

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To access, enter:

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

Duplicate PIN
available at:
PIN.ed.gov

START HERE
GO TO FILE
Financial Aid Review | Ed Connectivity | Glossary of Terms | Browser Info/Setup | FAQs | Contact Us

NSLDS Student Access site only supports the current 4-digit PIN standard. If you have a PIN that does not conform to this standard, please visit PIN.ed.gov to establish a new 4-digit PIN.

NSLDS STUDENT ACCESS
National Student Loan Data System

Retrieve Your Loan Information

Financial Aid Review
Ed Connectivity

FOIA | Privacy | Security | Notices | whatrouse.gov | USA.gov | ED.gov

When does repayment begin?

<p>31</p> <table border="1"> <thead> <tr> <th style="text-align: center;">Loans with GRACE PERIOD</th> <th style="text-align: center;">Loans without GRACE PERIOD</th> </tr> </thead> <tbody> <tr> <td style="vertical-align: top;"> <ul style="list-style-type: none"> <input type="checkbox"/> Sub and Unsub/Stafford <ul style="list-style-type: none"> <input type="checkbox"/> 6 months after graduation <input type="checkbox"/> Perkins <ul style="list-style-type: none"> <input type="checkbox"/> 9 months after graduation <input type="checkbox"/> Private <ul style="list-style-type: none"> <input type="checkbox"/> Contact lender <input type="checkbox"/> Institutional <ul style="list-style-type: none"> <input type="checkbox"/> Contact school </td> <td style="vertical-align: top;"> <ul style="list-style-type: none"> <input type="checkbox"/> Grad PLUS <ul style="list-style-type: none"> <input type="checkbox"/> 6 months after graduation due to automatic 6-month post-enrollment deferment <input type="checkbox"/> Consolidation <ul style="list-style-type: none"> <input type="checkbox"/> At graduation <input type="checkbox"/> Prior loans where grace period has been used <ul style="list-style-type: none"> <input type="checkbox"/> At graduation </td> </tr> </tbody> </table>	Loans with GRACE PERIOD	Loans without GRACE PERIOD	<ul style="list-style-type: none"> <input type="checkbox"/> Sub and Unsub/Stafford <ul style="list-style-type: none"> <input type="checkbox"/> 6 months after graduation <input type="checkbox"/> Perkins <ul style="list-style-type: none"> <input type="checkbox"/> 9 months after graduation <input type="checkbox"/> Private <ul style="list-style-type: none"> <input type="checkbox"/> Contact lender <input type="checkbox"/> Institutional <ul style="list-style-type: none"> <input type="checkbox"/> Contact school 	<ul style="list-style-type: none"> <input type="checkbox"/> Grad PLUS <ul style="list-style-type: none"> <input type="checkbox"/> 6 months after graduation due to automatic 6-month post-enrollment deferment <input type="checkbox"/> Consolidation <ul style="list-style-type: none"> <input type="checkbox"/> At graduation <input type="checkbox"/> Prior loans where grace period has been used <ul style="list-style-type: none"> <input type="checkbox"/> At graduation
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When repayment begins action is required!

<p>32</p> <p>You must:</p> <table border="1" style="margin-left: 20px;"> <thead> <tr> <th style="text-align: left;">Start or resume repaying your loans</th> </tr> </thead> <tbody> <tr> <td> <ul style="list-style-type: none"> <input type="checkbox"/> Pick your repayment plan <input type="checkbox"/> Pay scheduled payments by due date </td> </tr> </tbody> </table> <p style="text-align: center; margin: 10px 0;">OR</p> <table border="1" style="margin-left: 20px;"> <thead> <tr> <th style="text-align: left;">Postpone repayment</th> </tr> </thead> <tbody> <tr> <td> <ul style="list-style-type: none"> <input type="checkbox"/> Deferment <input type="checkbox"/> Forbearance </td> </tr> </tbody> </table>	Start or resume repaying your loans	<ul style="list-style-type: none"> <input type="checkbox"/> Pick your repayment plan <input type="checkbox"/> Pay scheduled payments by due date 	Postpone repayment	<ul style="list-style-type: none"> <input type="checkbox"/> Deferment <input type="checkbox"/> Forbearance
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Picking Your Plan

<p>33</p> <ul style="list-style-type: none"> <input type="checkbox"/> Why? <ul style="list-style-type: none"> <input type="checkbox"/> Your loans will be put on the Standard (10-year fixed) Plan if you fail to notify servicer of desired plan <input type="checkbox"/> When? <ul style="list-style-type: none"> <input type="checkbox"/> 30 days prior to start of repayment <input type="checkbox"/> How? <ul style="list-style-type: none"> <input type="checkbox"/> Notify your loan servicer (e.g., online or by phone) <input type="checkbox"/> Apply for an income-drive plan at: StudentLoans.gov <input type="checkbox"/> What if you need to change plans? <ul style="list-style-type: none"> <input type="checkbox"/> Contact your loan servicer

Direct Loan payment tips ...

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- 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%**

Loan Prepayment

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- No penalty for prepayments
- Contact your loan servicer before you make a prepayment
 - Ask what steps are needed to submit prepayments
 - Advise servicer you want to “prepay” the loan rather than “advance the due date”
 - Target prepayment at loan(s) with highest interest rate

Consolidation A Refinancing Option

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- 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

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- Simplify repayment by reducing number of lenders/ servicers
- Convert non-Direct loan debt (e.g., FFEL, Perkins, HPSL) into a Direct Consolidation Loan (*only Direct Loans are eligible for PAYE and PSLF*)
- 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)
- Increase maximum repayment term on debt to 30 years



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Benefit for Public Service

Public Service Loan Forgiveness Program (PSLF)

Public Service Loan Forgiveness Program (PSLF)

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- Created by the "College Cost Reduction and Access Act" (CCRAA) of 2007 (Pub. Law 110-84)
- Became effective October 1, 2007
- Loan repayment benefit—NOT a loan repayment plan
- Direct Loan balance forgiven once you complete 120 months of "qualifying public service"
- Months do not have to be consecutive
- Only Federal Direct Loans are eligible for forgiveness
- Amount forgiven is tax-free

What constitutes a month of “qualifying” public service?

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You must satisfy two conditions during the month for that month to count:

1. Employed as a paid employee of a **qualifying** public service organization, AND
2. Make an on-time “scheduled” **qualifying** payment on your **qualifying** Direct Loans

For more information about Public Service Loan Forgiveness (PSLF):

- Check online at: StudentAid.ed.gov/PublicService
- Call Fedloan Servicing at: **1-855-265-4038**

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Taking Charge

Final words ...

When making decisions about loan repayment ...

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Be strategic!

- Weigh the importance of reducing interest costs vs. ability to achieve your other financial goals more quickly
- Beware of risks
 - Uncertainty of future income
 - Uncertainty of future expenses
- Create your “**Action Plan**”

For more information ...

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- ❑ 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*
 - ❑ Federal Student Aid PIN: *PIN.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*

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