LOAN REPAYMENT STRATEGIES

Be Ready! Develop a Plan!

Spring 2015

Majority of law students ...

... now graduate with an EDUCATIONAL MORTGAGE

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What do you think?

☐ 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!**

- 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.

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**Federal student loans are flexible and safe ...**

- 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

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**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
  - Allocate “extra cash” for other expenses (e.g., FUTURE bucket)
# Loan Repayment Options

## Stafford, PLUS and Consolidation Loans

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

## PAYE “New Borrower” Requirement

- 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!

- 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

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

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

<table>
<thead>
<tr>
<th>Household AGI</th>
<th>2015 Monthly PFH Payment in 48 states</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>PAYE/10% IBR HH Size = 1</td>
</tr>
<tr>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>$10,000</td>
<td>$0</td>
</tr>
<tr>
<td>$20,000</td>
<td>$20</td>
</tr>
<tr>
<td>$30,000</td>
<td>$103</td>
</tr>
<tr>
<td>$40,000</td>
<td>$186</td>
</tr>
<tr>
<td>$50,000</td>
<td>$270</td>
</tr>
<tr>
<td>$60,000</td>
<td>$353</td>
</tr>
<tr>
<td>$70,000</td>
<td>$436</td>
</tr>
<tr>
<td>$80,000</td>
<td>$520</td>
</tr>
<tr>
<td>$90,000</td>
<td>$603</td>
</tr>
<tr>
<td>$100,000</td>
<td>$686</td>
</tr>
</tbody>
</table>
Applying for PAYE or IBR

- Complete/submit online application 30 days prior to start of repayment at: StudentLoans.gov
- Application collects:
  - Basic demographic information
  - Tax filing status
  - Household Adjusted Gross Income (AGI)
  - Household size
- Must re-apply every 12 months to update your information; servicer will contact you in advance

Estimate Your Monthly Payment

“Repayment Estimator” at: StudentLoans.gov

To “SIGN IN” enter:
- SSN
- First two letters of your last name
- Birthdate
- Dept. of Ed PIN

Duplicate PIN available at: PIN.ed.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
Federal Student Loan Debt = $129,000 (Weighted average interest rate = 6.67%)
Household AGI = $75,000 (Household Size = 1; State = CA)
(Estimates calculated using “Repayment Estimator” at: StudentLoans.gov)
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 from an *opportunity cost* perspective

**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
Other Potential Uses

You must decide how to allocate your monthly income among four "buckets"...

The “Future” Bucket

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

Develop your “Action Plan”

Don’t leave it to “chance” – create a strategic plan to repay your “educational mortgage”
Your Action Plan
4 Steps

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?

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

Duplicate PIN available at: PIN.ed.gov
Loan Summary Screen
A. "Type of Loan" – Is it a "Direct" loan?
B. Total Owed ("Outstanding Principal" + "Outstanding Interest")
C. Click on number in first column to see loan details

Loan Details Screen
A. "Scheduled Start of Repayment" or "Date Entered Repayment"
B. "Loan Status"
C. "Current Lender" / "Current Servicer" ("Current ED Servicer")

Who is your loan servicer?

Direct Loans initially are assigned to one of the following four ED servicers:

<table>
<thead>
<tr>
<th>Servicer</th>
<th>Website</th>
<th>Phone Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fedloan Servicing</td>
<td>myfedloan.org</td>
<td>(800) 699-2908</td>
</tr>
<tr>
<td>Great Lakes</td>
<td>mygreatlakes.org</td>
<td>(800) 236-4300</td>
</tr>
<tr>
<td>Navient (Sallie Mae)</td>
<td>navient.com</td>
<td>(800) 722-1300</td>
</tr>
<tr>
<td>Nelnet</td>
<td>nelnet.com</td>
<td>(888) 486-4722</td>
</tr>
</tbody>
</table>

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>

### When repayment begins ... action is required!

**You must:**

- Start or resume repaying your loans
  - Pick your repayment plan
  - Pay scheduled payments by due date

**OR**

- Postpone repayment
  - Deferred
  - Forbearance

### Picking Your Plan

**Why?**
- Your loans will be put on the Standard (10-year fixed) Plan if you fail to notify servicer of desired plan

**When?**
- 30 days prior to start of repayment

**How?**
- Notify your loan servicer (e.g., online or by phone)
- Apply for an income-drive plan at: StudentLoans.gov

**What if you need to change plans?**
- Contact your loan servicer
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%

Loan Prepayment

- 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

- 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
- Convert non-Direct loan debt (e.g., FFEL, Perkins, HPFL) 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

Benefit for Public Service

Public Service Loan Forgiveness Program (PSLF)

- 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

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What constitutes a month of “qualifying” public service?

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

Taking Charge

Final words …

When making decisions about loan repayment …

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 …

- 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

BE STRATEGIC:
Take Charge of Loan Repayment!

Jeffrey Hanson Education Services
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