

Managing the Winding Road of Loan Repayment



Strategies for Successfully Repaying Your Student Loans

A Question . . .

How are you paying for your education?

Which of YOUR financial resources are you using to pay for your education?

- **Savings and other assets**
- **Gifts from family and others**
- **In-school earnings**
- *Your future income*

You need a sound “loan repayment strategy” if you hope to spend your future income wisely!

To successfully manage loan repayment . . .

- **Borrow the minimum amount possible**
- **Develop an affordable budget plan**
- **Fully understand the terms and conditions of your loans and your options in repayment**
- **Think twice before you consolidate**
- **Consider a payment plan that will extend repayment or that is based on your income if you need to reduce your monthly loan payments**
- **Take advantage of loan forgiveness programs when you qualify for them**

Federal Loan Repayment Options

Repayment Options

Federal Family Education Loan Program (FFELP)

- **Standard (Fixed) Repayment**
- **Graduated Repayment**
- **Extended Repayment** *(if eligible)*
- **Income-Sensitive Repayment**
- **Income-Based Repayment** *(effective 7/1/2009)*

You're allowed to change your payment plan once in repayment

FFELP Repayment Option:

Standard Repayment

- **Monthly payment is fixed – the same minimum payment is due each month**
- **Maximum repayment period is 10 years on Federal Stafford/Federal PLUS Loans**
- **Lowest cost in interest paid**
- **Highest initial monthly payments**

FFELP Repayment Option:

Graduated Repayment

- **Payments start low, then increase in one or more increments over time**
- **Maximum repayment period is 10 years on Federal Stafford/Federal PLUS Loans**
- **Results in higher cost of interest paid than under Standard Repayment Plan**
- **Lenders must offer at least one graduated repayment plan; some lenders offer more than one graduated option**

FFELP Repayment Option:

Extended Repayment

- **Standard or graduated payments over 25 years**
- **Higher cost in interest paid**
- **Monthly payment less than Standard Repayment with 10-year repayment schedule**
- **Available only to those who borrowed their first FFELP loan on or after 10/7/98**
- **Must have more than \$30,000 in FFELP debt**

Comparing Standard, Graduated and Extended Repayment - \$60,000 Loan Balance

Options	Standard Repayment	Graduated Repayment	Extended Repayment
Monthly Payment	\$690	\$340 (2 yrs)	\$416
		\$812 (8 yrs)	
Repayment Period	10 years	10 years	25 years
TOTAL PAID	\$82,858	\$86,118	\$124,933
Assumptions: <ul style="list-style-type: none"> - 6.80% fixed interest rate - No payment incentives 			

Comparing Standard, Graduated and Extended Repayment - *\$100,000 Loan Balance*

Options	Standard Repayment	Graduated Repayment	Extended Repayment
Monthly Payment	\$1,151	\$567 (2 yrs)	\$694
		\$1,353 (8 yrs)	
Repayment Period	10 years	10 years	25 years
TOTAL PAID	\$138,096	\$143,530	\$208,222
Assumptions: <ul style="list-style-type: none"> - 6.80% fixed interest rate - No payment incentives 			

FFELP Repayment Option:

Income-Sensitive Repayment

- **Eligibility based on expected total gross monthly income received from all sources and loan amount**
- **Payment must at least equal interest charges**
- **Reviewed and adjusted annually in case of any income changes**
- **Maximum repayment period is 15 years on Federal Stafford/Federal PLUS Loans**
- **Results in lower monthly payment, but higher cost of interest paid**

Federal Loan Consolidation

Consolidation is . . .

- **Paying off one or more eligible federal education loans by borrowing a new federal education loan**
- **All federal student loans except the Primary Care Loan (PCL) are eligible for federal loan consolidation**

Reasons to Consolidate

- **To reduce your monthly loan payment**
 - **Increases monthly cash flow**
- **To have single statement billing**
 - **Increases convenience**
- **To take advantage of the fixed interest rate structure of the Federal Consolidation Loan (FCL) by consolidating your loans with variable interest rates**
 - **Can reduce long-term cost**

Consolidation May *Not* Be Right

- **If any of the following are true:**
 - You only have eligible federal student loans with **FIXED** interest rates
 - You qualify for **Extended Repayment**
 - You qualify for **on-time payment incentives on your Federal Stafford/PLUS Loans**
- **Then, you might be better off financially by NOT consolidating**
 - **Your monthly payment could be less without consolidating**
 - **The total interest cost of your student loan debt likely will be less if you do not consolidate**

Example #1

\$40,000 Federal Stafford Loan (FSL)

Federal Stafford Loan (FSL)	Extended Repayment	Consolidation of Stafford (FSL)	
Loan Principal	\$40,000	\$40,000	
Interest Rate	6.80%	6.875%	
Length of Repayment	25 years	25 years	30 years
Monthly Payment	\$277.63	\$279.53	\$262.77
Total Paid	\$83,288.65	\$83,859.02	\$94,597.75

What if you get an 0.8% on-time payment interest rate reduction on FSL?

Federal Stafford Loan (FSL)	Extended Repayment	Consolidation of Stafford (FSL)	
Loan Principal	\$40,000	\$40,000	
Interest Rate	6.00%*	6.875%	
Length of Repayment	25 years	25 years	30 years
Monthly Payment	\$257.72	\$279.53	\$262.77
Total Paid	\$77,316.17	\$83,859.02	\$94,597.75
<p>*Assumes interest rate is reduced by 0.8% after you make your first scheduled monthly loan payment on time; benefit continues as long as your payments are received on time</p>			

Example #2

\$20,000 Federal PLUS Loan

Federal PLUS Loan	Extended Repayment	Consolidation of PLUS	
Loan Principal	\$20,000	\$20,000	
Interest Rate	8.50%	8.25%	
Length of Repayment	25 years	25 years	30 years
Monthly Payment	\$161.05	\$157.69	\$150.25
Total Paid	\$48,313.63	\$47,307.01	\$54,091.20

What if you get a 1.0% on-time payment interest rate reduction on PLUS?

Federal PLUS Loan	Extended Repayment	Consolidation of PLUS	
Loan Principal	\$20,000	\$20,000	
Interest Rate	7.50%*	8.25%	
Length of Repayment	25 years	25 years	30 years
Monthly Payment	\$147.80	\$157.69	\$150.25
Total Paid	\$44,339.47	\$47,307.01	\$54,091.20
* Assumes interest rate is reduced by 1.0% when you make your first scheduled payment on time and continues as long as your payments are received on time			

Consolidation May Be Right

- **If any of the following are true:**
 - **Borrower has eligible federal student loans with VARIABLE interest rates**
 - **Borrower does NOT qualify for Extended Repayment**
 - **Borrower has multiple loan holders of his/her eligible federal student loans and wants them all combined into a single monthly bill/payment**
- **Then, borrower may want to consider consolidation**
 - **Timing of the consolidation loan still is an important issue if loans with variable interest rates are being consolidated**

2007–2008 Variable Interest Rates

Federal Stafford/Direct Loans

With 2007–2008 91-day T-bill = 4.92%:

- In-school/grace/deferment variable interest rate =

$$4.92\% + 1.7\% = 6.62\%$$

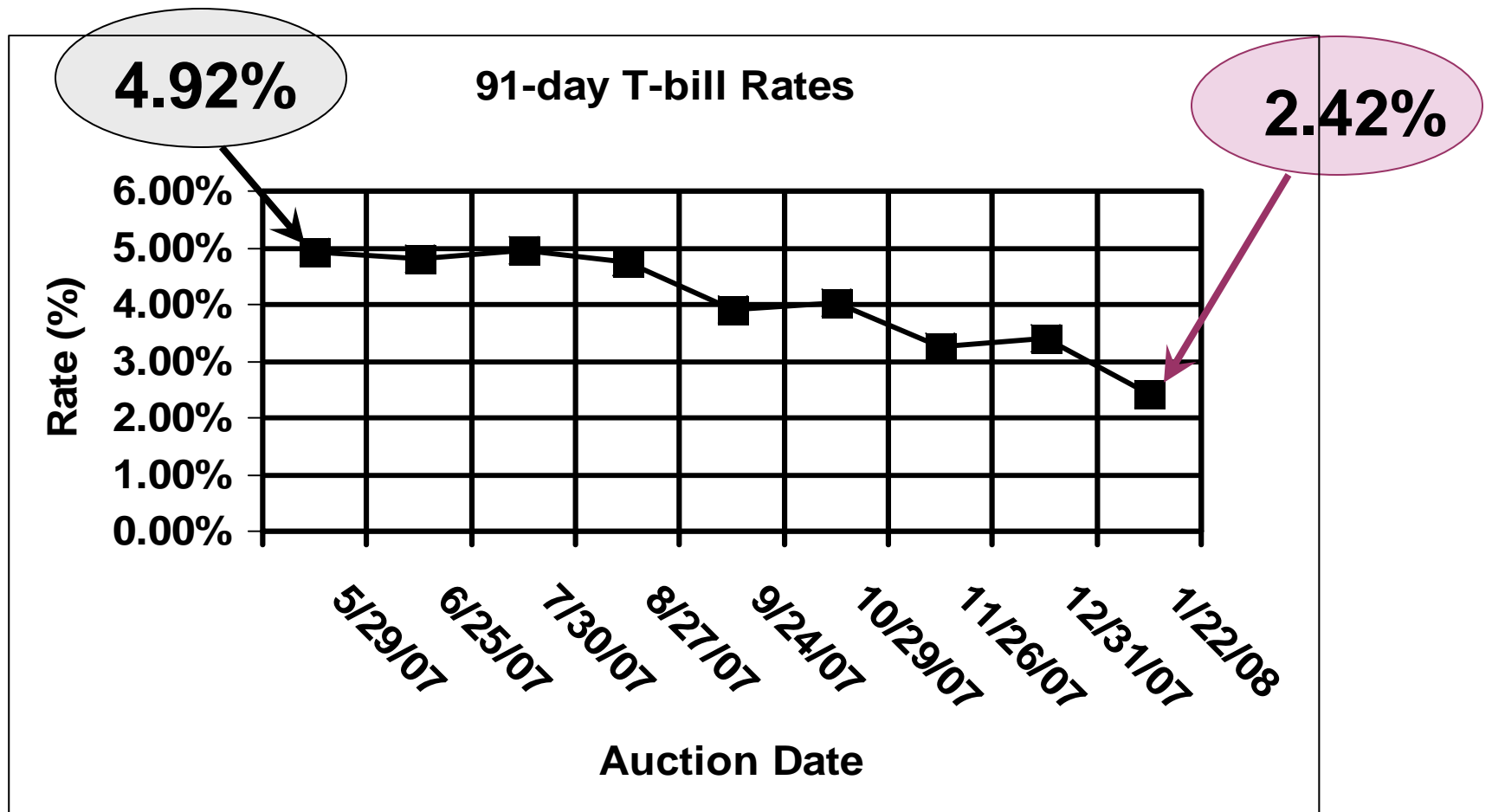
- Consolidation (FCL) fixed rate = **6.625%**

- In-repayment/forbearance variable interest rate =

$$4.92\% + 2.3\% = 7.22\%$$

- Consolidation (FCL) fixed rate = **7.25%**

Recent 91-day T-bill Rate Trends



Source: "Treasury Security Auction Results." U.S. Department of the Treasury, Bureau of the Public Debt, Washington, DC.

What would be the 2008–2009 interest rates if set as of 1/22/08?

Assuming 2008–2009 91-day T-bill = 2.42%:

- In-school/grace/deferment variable interest rate =

$$2.42\% + 1.7\% = 4.12\%$$

- Consolidation (FCL) fixed rate = 4.125% (2.5% decrease from 2007-2008 fixed FCL rate)

- In-repayment/forbearance variable interest rate =

$$2.42\% + 2.3\% = 4.72\%$$

- Consolidation (FCL) fixed rate = 4.75% (2.5% decrease from 2007-2008 fixed FCL rate)

- And note, 4.75% is 1.875% less than the consolidation rate of 6.625% that is based on the in-school variable rate for 2007-2008

New Federal Student Loan Repayment Programs

College Cost Reduction and Access Act

New Federal Loan Repayment Programs

P.L. 110-84 provides:

- **New Income-Based Repayment (IBR) program for FFELP and Direct Loan borrowers as of July 1, 2009**
- **New loan forgiveness program for those who are employed full-time in qualifying public service jobs AND making qualifying loan payments on Federal Direct Loans**

Income-Based Repayment (IBR)

- **Effective date:**
 - **July 1, 2009**
- **Eligibility criteria:**
 - **Available for repayment of FFEL/Direct Stafford, Grad PLUS and Federal Consolidation Loans (FCL)**
 - **Cannot be used to repay Parent PLUS Loans**
 - **Cannot be used to repay FCL that included payoff of a Parent PLUS Loan**
 - **Borrower must be experiencing “Partial Financial Hardship”**
 - **Loans can be in default aversion or in default**

Income-Based Repayment (IBR)

“Partial Financial Hardship”

A borrower is considered to have “Partial Financial Hardship” when:

- Annual amount due on his or her total eligible federal student loan debt in repayment
- Calculated using the Standard Repayment Plan based on a 10-year repayment period
- Exceeds 15% of his or her household AGI (including spouse’s income, if married, and filing *joint* federal tax return) above 150% of the poverty line for his or her family size
- *If eligible, the IBR monthly payment is 1/12th of 15% of the AGI above 150% of the poverty line*

Calculator available at www.finaid.org

Income-Based Repayment (IBR)

2007 HHS Poverty Guidelines

Persons in Family or Household	48 Contiguous States and D.C.	Alaska	Hawaii
1	\$10,210	\$12,770	\$11,750
2	13,690	17,120	15,750
3	17,170	21,470	19,750
4	20,650	25,820	23,750
5	24,130	30,170	27,750
6	27,610	34,520	31,750
7	31,090	38,870	35,750
8	34,570	43,220	39,750
For each additional person, add	3,480	4,350	4,000

Source: *Federal Register*, Vol. 72, No. 15, January 24, 2007, pp. 3147-3148

Income-Based Repayment (IBR)

Sample Calculation

Eligible federal student loan debt	\$60,000	
Estimated monthly payment (Standard plan @ 6.8% over 10 years)	\$690	[1]
Annual amount due ([1] × 12)	\$8,286	[2]
Household size	1	
Household AGI	\$40,000	[3]
Poverty line for household size	\$10,210	[4]
150% of poverty line (1.5 × [4])	\$15,315	[5]
AGI – 150% of poverty line ([3] – [5])	\$24,685	[6]
15% of calculated amount from (0.15 × [6])	\$3,703	[7]
Eligible for Partial financial hardship – YES or NO YES, if [7] is less than [2] NO, if [7] is equal to or greater than [2]	YES	
IBR monthly payment, if eligible ([7] ÷ 12)	\$309	
Maximum AGI permitted in this example to qualify for IBR	\$70,555	

Income-Based Repayment (IBR)

Beware of Negative Amortization

Eligible federal student loan debt	\$60,000
Estimated monthly payment (Standard plan @ 6.8% over 10 years)	\$690
Interest paid in 1st month	\$340
Loan principal paid in 1st month	\$350
New principal balance after 1st payment	\$59,650
Comparison with IBR payment, if eligible	
IBR monthly payment in first month	\$309
New principal balance after 1st payment	\$60,000
Unpaid interest after 1st payment	\$39
Minimum AGI needed to eliminate negative amortization	
AGI needed with IBR to pay accrued interest	\$42,515
IBR monthly payment in first month	\$340

Income-Based Repayment (IBR)

Debt Needed to Qualify at Specified AGI

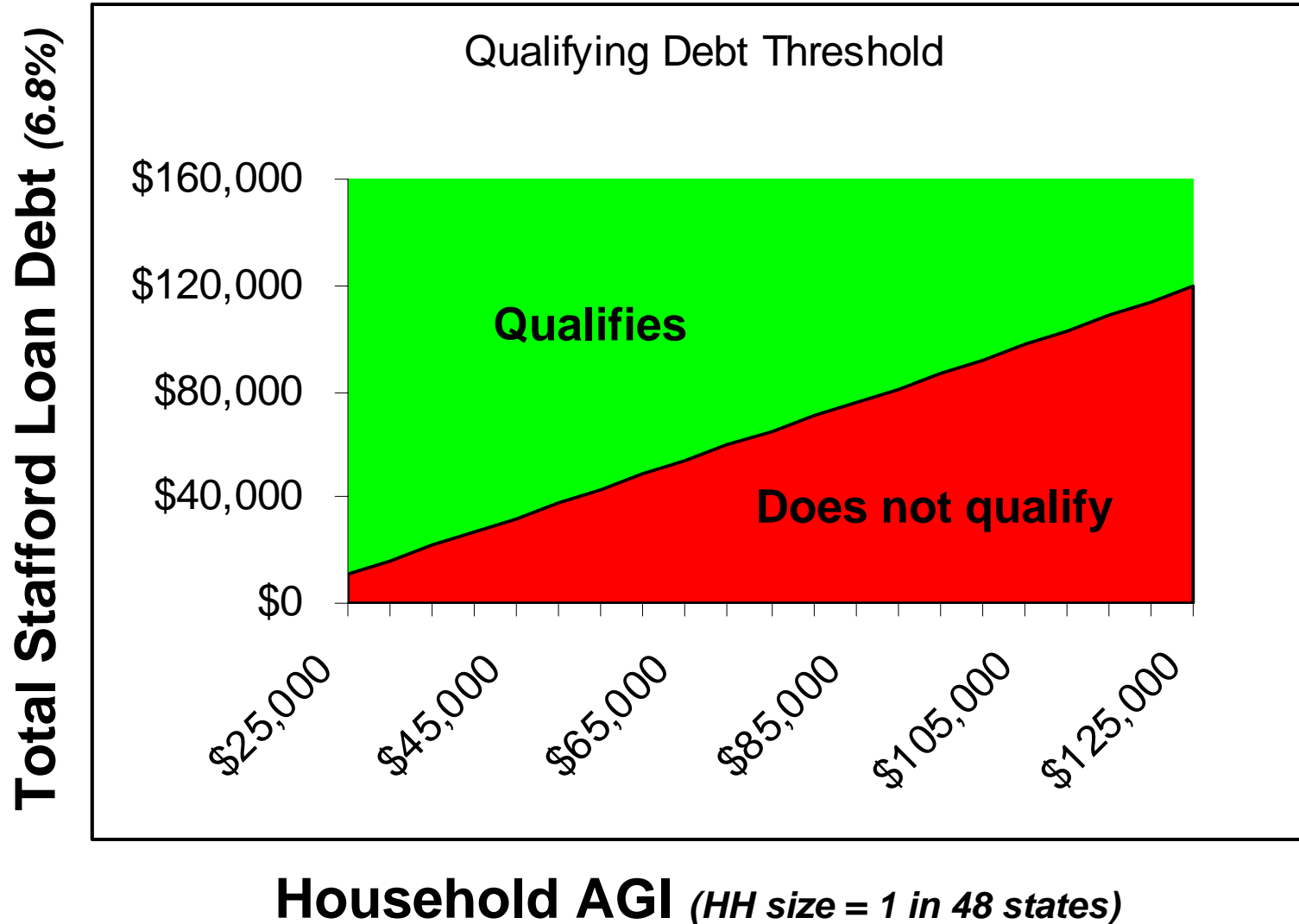
AGI	Debt
\$25,000	\$10,520
\$30,000	\$15,951
\$35,000	\$21,382
\$40,000	\$26,813
\$45,000	\$32,244
\$50,000	\$37,675
\$55,000	\$43,106
\$60,000	\$48,537
\$65,000	\$53,968
\$70,000	\$59,399

AGI	Debt
\$75,000	\$64,830
\$80,000	\$70,261
\$85,000	\$75,692
\$90,000	\$81,123
\$95,000	\$86,554
\$100,000	\$91,985
\$105,000	\$97,416
\$110,000	\$102,847
\$115,000	\$108,278
\$120,000	\$113,709
\$125,000	\$119,140

- Assumptions:**
- Interest rate = 6.8%
 - Household resides in 48 contiguous states
 - 2007 Poverty Guidelines

Income-Based Repayment (IBR)

Total Stafford Loan Debt Needed to Qualify



Income-Based Repayment (IBR)

More Payment Provisions

- **Monthly IBR payment can be less than the accrued interest that billing period (i.e., it allows for negative amortization)**
- **Secretary of ED is authorized to pay any unpaid interest that accrues during IBR repayment on qualifying subsidized Stafford debt for not more than 3 years (not counting periods of Economic Hardship deferment)**
- **Unpaid interest and principal can be capitalized by your loan holder when you terminate IBR plan**
- **Repayment period using IBR can extend beyond 10 years regardless of the amount of your eligible debt**

Income-Based Repayment (IBR)

Loan Cancellation After 25 Years

- Any outstanding eligible FFEL or Direct loan balance (other than PLUS) is cancelled after 25 years of being “economically challenged”
- To be “economically challenged” you must have used IBR during a portion of the repayment period AND you must meet at least one of the following requirements during the 25-year period:
 - Made reduced monthly payments under IBR
 - Made monthly loan payments using Income Contingent Repayment (ICR)
 - Made monthly payments of not less than the monthly amount calculated using Standard Repayment based on a 10-year repayment period when you first used IBR
 - Were in an Economic Hardship deferment
- Any loan amount that is cancelled may be taxable in the calendar year in which it is cancelled

Income-Based Repayment (IBR)

A Few Things to Consider

- **Use of IBR can help make loan repayment more manageable by reducing the minimum monthly payment on your eligible federal student loans**
- **But, use of IBR will increase the total cost of your debt since more interest will accrue**
- **IBR does not replace Income Sensitive Repayment or Income Contingent Repayment options, but it likely will be the most widely used income-related payment option chosen**
- **Extended Repayment also is an option to consider if you need to reduce your monthly payment and you want to avoid the possibility of negative amortization**

Income-Based Repayment (IBR)

Extended repayment as an alternative to IBR

Eligible federal student loan debt	\$60,000
Estimated monthly payment (Standard plan @ 6.8% over 10 years)	\$690
Estimated monthly payment (Extended plan with fixed payments @ 6.8% over 25 years)	\$416
Interest paid in 1st month	\$340
Loan principal paid in 1st month	\$76
Estimated monthly payment (IBR plan @ 6.8% over ? years)	\$309

Public Service Loan Forgiveness

New Federal Loan Forgiveness Program

- **The balance of interest and principal due on any of your eligible Federal Direct Loans will be cancelled by the U.S. Department of Education provided you have met the following three conditions:**
 - **Your Federal Direct Loans are not in default**
 - **You have worked full-time for a total of 10 years (120 months) in a qualifying public service position on or after October 1, 2007**
 - **You have made 120 qualifying loan payments on your Federal Direct Loans during the period of qualifying public service employment**

Public Service Loan Forgiveness

General Provisions

- **Effective for qualifying monthly loan payments made on or after October 1, 2007**
- **Loans eligible for forgiveness are limited to:**
 - **Federal Direct Stafford Loans**
 - **Federal Direct PLUS Loans**
 - **Federal Direct Consolidation Loans**
- **Any loan amount that is cancelled may be taxable in the calendar year in which it is cancelled**

Public Service Loan Forgiveness

Qualifying Payment Requirements

- **You must be working in an eligible public service position AND be making monthly loan payments for 120 months on your eligible Federal Direct Loan(s) as part of:**
 - **Income Contingent Repayment (ICR) plan, or**
 - **Income Based Repayment (IBR) plan, or**
 - **Standard Repayment plan based on a 10-year repayment schedule, or**
 - **Repayment plan where the monthly amount paid was not less than the monthly amount required under Standard Repayment over a 10-year repayment period.**

Public Service Loan Forgiveness

Additional Eligibility Provisions

- **Your 120 qualifying months do NOT have to be consecutive**
- **You must be working in qualifying public service position at time of loan forgiveness**
- **Loan payments made prior to October 1, 2007 do NOT count toward the 120-month requirement**
- **Loan payments on non-eligible loans (e.g., FFELP loans, Federal Perkins Loans) do NOT count toward the 120-month requirement**

Public Service Loan Forgiveness

Definition of “Public Service”

As defined in P.L. 110-84

Full-time employment in:

- Emergency management
- Government
- Military service
- Public safety
- Law enforcement
- Public health
- Public education (including early childhood education)
- Social work in a public child or family service agency
- *MORE . . .*

Public Service Loan Forgiveness

Definition of “Public Service”, cont.

As defined in P.L. 110-84

Full-time employment in:

- **Public interest law services (including prosecution, public defense or legal advocacy in low-income communities at a nonprofit organization)**
- **Public child care**
- **Public service for individuals with disabilities**
- **Public service for the elderly**
- **Public library sciences**
- **School-based library sciences and other school-based services**
- ***MORE . . .***

Public Service Loan Forgiveness

Definition of “Public Service”, cont.

As defined in P.L. 110-84

Full-time employment in:

- **A 501(c)(3) organization that is exempt from taxation under section 501(a) of the Internal Revenue Code of 1986**
- **Teaching as a full-time faculty member at a Tribal College or University as defined in section 316(b)**
- **Other faculty teaching full-time in high-needs areas, as determined by the Secretary of Education**

Public Service Loan Forgiveness

Reconsolidation in Direct

- **Effective date is July 1, 2008**
- **Allows you to reconsolidate any existing FFELP Federal Consolidation Loan (FCL) in the Federal Direct Loan Program to take advantage of the new public service loan forgiveness program**

Public Service Loan Forgiveness

Questions You Should Consider

- **Will you work full-time in a qualifying public service position for at least 10 years?**
 - This forgiveness program can be very helpful to those who plan to make a career of public service and who have high federal student loan debt relative to their income
- **Will you be making qualifying loan payments during the entire 10 year period of public service employment?**
- **What will you be giving up by consolidating your FFELP loans in the Federal Direct Loan Program?**
 - Borrower benefits?
 - Customer service experience with current FFELP lender?
 - Other value-added services?

Public Service Loan Forgiveness

For more information . . .

- ***Public Law 110-84*** – September 27, 2007
- **Schrag, Philip G., "Federal Student Loan Repayment Assistance for Public Interest Lawyers and other Employees of Governments and Nonprofit Organizations". Hofstra Law Review, Vol. 36, Fall 2007.**
- **Equal Justice Works at:**
www.equaljusticeworks.org

A Few Final Comments . . .

When Choosing a Repayment Plan

Consider the following . . .

- **If you want to pay the least amount of total interest over the life of repayment**
 - **Standard Repayment Plan with a 10-year repayment schedule will result in the least amount of interest paid**
- **If you want the lowest possible monthly loan payment**
 - **Income-Based Repayment likely will require the lowest monthly payment for those who qualify, but it could result in negative amortization and that will add to the total debt being repaid**
 - **Extended Repayment over 25 years will result in a lower monthly payment than Standard Repayment over 10 years without the possibility of negative amortization**

Remember, to successfully manage loan repayment . . .

- **Borrow the minimum amount possible**
- **Develop an affordable budget plan**
- **Fully understand the terms and conditions of your loans and your options in repayment**
- **Think twice before you consolidate**
- **Consider a payment plan that will extend repayment or that is based on your income if you need to reduce your monthly loan payments**
- **Take advantage of loan forgiveness programs when you qualify for them**

We're here to help you!

Access Group

800-282-1550

AccessGroup.Org

FederalConsolidation.Org