TAKE CHARGE OF LOAN REPAYMENT!

Strategies for Managing Your Debt Successfully

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Education Services

Cornell Law School
Federal student loans are unique ...

- Flexible monthly payment options including the income-driven repayment plans
  - Payments will *always* be less than 15% of household’s monthly AGI if you choose the plan with smallest monthly payment
  - Portion of debt could be forgiven or cancelled

- Payment relief options
  - Deferment
  - Forbearance
  - Adjustments to monthly payment

Therefore, they are LOW RISK debt—Unlike all other debt (including private student loans), you should never have to miss a payment or default on a federal student loan due to these attributes.
Your Action Plan

5 Steps

1. Take stock of your loan portfolio
2. Determine when repayment begins
3. Pick your repayment plan
4. Evaluate if “Consolidation” is beneficial
5. Repay all that you owe
Step 1
Review your loan history
What do you need to know?

For each loan in your portfolio:

- Type of loan
- Interest rate
- Amount owed
- Who to repay
- When repayment begins
- 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
Who do you repay?

You should know:

- Roles of lender/holder and loan servicer
  - You will be working with your loan servicer
- How to contact loan servicer
  - Phone number
  - Website
Who is your 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>Nelnet</td>
<td>nelnet.com</td>
<td>(888) 486-4722</td>
</tr>
<tr>
<td>Sallie Mae</td>
<td>salliemae.com</td>
<td>(800) 722-1300</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](http://NSLDS.ed.gov) to verify contact information for your loan servicer(s)
### Loan Portfolio Chart

#### Sample Worksheet

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Interest Rate</th>
<th>Lender</th>
<th>Servicer</th>
<th>Amount Owed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Stafford</td>
<td>5.41%</td>
<td>U.S. Dept. of Education</td>
<td>(        )</td>
<td>$</td>
</tr>
<tr>
<td>Direct Grad PLUS</td>
<td>6.41%</td>
<td>U.S. Dept. of Education</td>
<td>(        )</td>
<td>$</td>
</tr>
</tbody>
</table>
Determine when repayment begins
**When does repayment begin?**

<table>
<thead>
<tr>
<th>Loans with GRACE PERIOD</th>
<th>Loans without GRACE PERIOD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stafford/Direct Sub and Unsub</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>
</tbody>
</table>
When repayment begins ...

You must:

- Start making payments,
- OR
- Postpone repayment.

Action is required!
Postponing Repayment

- **Deferment**
  - Interest is subsidized on subsidized loans; accrues on unsubsidized loans

- **Forbearance**
  - Interest accrues on ALL loans

Should contact servicer and explain why payment relief is needed
# Repayment Timetable

## Year 1 (Class of 2014)

<table>
<thead>
<tr>
<th>Loan</th>
<th>Degree</th>
<th>Grace Period</th>
<th>Payment Start Date</th>
<th>Action Needed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Stafford</td>
<td>Law</td>
<td>6 months</td>
<td>≈ 12/1/2014</td>
<td>Select payment plan near end of grace period</td>
</tr>
<tr>
<td>Direct Grad PLUS</td>
<td>Law</td>
<td>none</td>
<td>≈ 12/1/2014</td>
<td>Verify post-enrollment deferment will be applied automatically after graduation</td>
</tr>
</tbody>
</table>
Step 3

Pick your repayment plan
Picking Your Plan

Suggested steps:

1. Understand your options
2. Estimate your budget
3. Define your goals
4. Evaluate possible tradeoffs
5. Leverage loan repayment flexibility
6. Pick your plan
Understanding Your Options
# Loan Repayment Options

**Stafford, PLUS and Consolidation Loans**

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

Additional Eligibility Requirements

- Must be a “new borrower” on or after October 1, 2007 (10/1/2007)
  - No federal loans before 10/1/2007, OR
  - No outstanding balance on an existing federal student loan when you borrowed your first federal student loan on or after 10/1/2007

- Must have had a disbursement of a federal student loan on or after 10/1/2011
To enter IBR/PAYE, you must have:

PARTIAL FINANCIAL HARDSHIP (PFH)
What is PFH?

Partial financial hardship exists when:

Standard 10-year payment $$$$$$

> IBR/PAYE payment $$
IBR and PAYE

How is monthly payment calculated?

When PFH exists, payment is based on:

- Household AGI
- Household size
- Federal Poverty Guidelines
“Household AGI”

- Your AGI
- Spouse’s AGI, only if joint federal tax return was filed

NOTE: Household’s eligible debt in PFH determination will include spouse’s eligible debt, if spouse’s AGI is included
“Household Size”

- You
- Spouse
- Dependent children
- Other dependents in household who receive > 50% support from you
Annual amount paid in IBR is 15% of “Discretionary” Income

Annual IBR payment (15% of “Discretionary” Income)

Remainder of “Discretionary” Income

AGI protected to cover basic needs (150% of poverty line)
Annual amount paid in PAYE is **10%** of “Discretionary” Income.
## Sample Monthly Payments

### PAYE vs. IBR

<table>
<thead>
<tr>
<th>Household AGI</th>
<th>2014 Monthly PFH Payment in 48 states</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>PAYE 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>$21</td>
</tr>
<tr>
<td>$30,000</td>
<td>$104</td>
</tr>
<tr>
<td>$40,000</td>
<td>$187</td>
</tr>
<tr>
<td>$50,000</td>
<td>$271</td>
</tr>
<tr>
<td>$60,000</td>
<td>$354</td>
</tr>
<tr>
<td>$70,000</td>
<td>$437</td>
</tr>
<tr>
<td>$80,000</td>
<td>$521</td>
</tr>
<tr>
<td>$90,000</td>
<td>$604</td>
</tr>
<tr>
<td>$100,000</td>
<td>$687</td>
</tr>
</tbody>
</table>
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
Payment Comparisons

Federal Student Loan Debt = $160,000 (Weighted average interest rate = %)
Household AGI = $160,000 (Household Size = 1; State = NY)
(Estimates calculated using “Repayment Estimator” at: StudentLoans.gov)
## Payment Comparisons

Federal Student Loan Debt = $160,000 *(Weighted average interest rate = %)*  
Household AGI = $160,000 *(Household Size = 1; State = NY)*  
*(Estimates calculated using “Repayment Estimator” at: StudentLoans.gov)*

<table>
<thead>
<tr>
<th>Repayment Plan</th>
<th>Repayment Period</th>
<th>Monthly Payment Initial to Final Amounts</th>
<th>Projected Loan Forgiveness</th>
<th>Total Interest Paid</th>
<th>Total Amount Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>*<em>Standard</em> ③</td>
<td>120 months</td>
<td>$1,857 to $1,857</td>
<td>-</td>
<td>$62,829</td>
<td>$222,829</td>
</tr>
<tr>
<td>*<em>Graduated</em> ③</td>
<td>120 months</td>
<td>$1,073 to $3,220</td>
<td>-</td>
<td>$80,272</td>
<td>$240,272</td>
</tr>
<tr>
<td>**Extended Fixed ③</td>
<td>300 months</td>
<td>$1,130 to $1,130</td>
<td>-</td>
<td>$178,948</td>
<td>$338,948</td>
</tr>
<tr>
<td>**Extended Graduated ③</td>
<td>300 months</td>
<td>$932 to $1,596</td>
<td>-</td>
<td>$206,718</td>
<td>$366,718</td>
</tr>
<tr>
<td><strong>Pay As You Earn</strong> ③</td>
<td>162 months</td>
<td>$1,190 to $1,857</td>
<td>$0</td>
<td>$97,302</td>
<td>$257,302</td>
</tr>
<tr>
<td><strong>Income-Based Repayment (IBR)</strong> ③</td>
<td>121 months</td>
<td>$1,785 to $1,857</td>
<td>$0</td>
<td>$63,650</td>
<td>$223,650</td>
</tr>
<tr>
<td><strong>Income-Contingent Repayment (ICR)</strong> ③</td>
<td>76 months</td>
<td>$2,475 to $2,868</td>
<td>$0</td>
<td>$39,122</td>
<td>$199,122</td>
</tr>
</tbody>
</table>
Payment Comparisons

Federal Student Loan Debt = $160,000 *(Weighted average interest rate = %)*
Household AGI = $35,000 *(Household Size = 1; State = NY)*
*(Estimates calculated using “Repayment Estimator” at: StudentLoans.gov)*
### Payment Comparisons

Federal Student Loan Debt = $160,000 *(Weighted average interest rate = %)*  
Household AGI = $35,000 *(Household Size = 1; State = NY)*  
*(Estimates calculated using “Repayment Estimator” at: StudentLoans.gov)*

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<tr>
<th>Repayment Plan</th>
<th>Repayment Period</th>
<th>Monthly Payment</th>
<th>Projected Loan Forgiveness</th>
<th>Total Interest Paid</th>
<th>Total Amount Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard*</td>
<td>120 months</td>
<td>$1,857 to $1,857</td>
<td>-</td>
<td>$62,829</td>
<td>$222,829</td>
</tr>
<tr>
<td>Graduated*</td>
<td>120 months</td>
<td>$1,073 to $3,220</td>
<td>-</td>
<td>$80,272</td>
<td>$240,272</td>
</tr>
<tr>
<td>Extended Fixed</td>
<td>300 months</td>
<td>$1,130 to $1,130</td>
<td>-</td>
<td>$178,948</td>
<td>$338,948</td>
</tr>
<tr>
<td>Extended Graduated</td>
<td>300 months</td>
<td>$932 to $1,596</td>
<td>-</td>
<td>$206,718</td>
<td>$366,718</td>
</tr>
<tr>
<td>Pay As You Earn**</td>
<td>240 months</td>
<td>$148 to $471</td>
<td>$315,700</td>
<td>$67,980</td>
<td>$67,980</td>
</tr>
<tr>
<td>Income-Based Repayment (IBR)**</td>
<td>300 months</td>
<td>$222 to $941</td>
<td>$287,091</td>
<td>$152,509</td>
<td>$152,509</td>
</tr>
<tr>
<td>Income-Contingent Repayment (ICR)**</td>
<td>300 months</td>
<td>$392 to $1,464</td>
<td>$217,879</td>
<td>$246,927</td>
<td>$246,927</td>
</tr>
</tbody>
</table>
Choosing Your Plan
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
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?”
Other Potential Uses

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

- Past: debts
- Present: living expenses
- Future: savings, investments
- Philanthropy: charitable donations
The “Future” Bucket

You also should be:

- 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 for a home
  - Minimum of 10% of purchase price
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)
Applying for IBR or PAYE

- Contact current loan servicer to apply for IBR/PAYE
- Complete online application at: StudentLoans.gov, as directed (every 12 months)
  - Application collects basic demographic information as well as information about household adjusted gross income (AGI) and household size

You must CONSOLIDATE any non-DIRECT federal student loans (e.g., FFEL, Perkins) before you can repay that debt using PAYE

Apply at: StudentLoans.gov
Prepaying Loans
Loan Prepayment

- You can make prepayments on your federal student loan(s) without penalty
- Will reduce total interest paid on loan
- Target prepayment at loan(s) with highest interest rate
  (contact servicer to determine how to target prepayments without advancing next payment due date)
- Contact loan servicer for information on how prepayments are applied to principal/interest
- Best to make prepayments online at loan servicer’s website
Step 4
Evaluate if Federal Loan Consolidation is needed
Consolidation
Can be confusing!

- Consolidation ≠ COMBINING loans
- Consolidation = REFINANCING loans
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

- **NEW!** Now apply online at: [StudentLoans.gov](http://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
  - *For example, you may have borrowed FFEL Loans as an undergraduate*

- Convert variable-rate Stafford Loans into fixed-rate Direct Consolidation Loan

- Convert FFEL loan(s) into Direct loan debt for Public Service Loan Forgiveness Program and PAYE eligibility

- Convert Perkins/HPSL/LDS loan(s) into Direct loan debt for Public Service Loan Forgiveness Program, IBR and PAYE eligibility

- Lengthen repayment period to reduce monthly payment on federal student loan debt

- Change loan servicer

- Release endorser from Grad PLUS Loan
Final words ...
Public Service Loan Forgiveness Program (PSLF)
PSLF
Key Points

- DIRECT Loans only
- Work full-time as a paid employee for an eligible public service organization for 10 years (120 months)
- Repay loans using PAYE or IBR
- For more information, go to: StudentAid.ed.gov/publicservice
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**”
Direct Loan Payment tips ...

- You will receive a SINGLE, itemized monthly billing statement from the servicer listing all of your Federal Direct Loans in repayment so that you only need to submit one monthly payment for those loans.

- Payments can be made by:
  - Check or money order
  - Online payment
  - “Auto-Pay” program

- SAVE TIME AND MONEY – Sign up for “Auto-Pay” – The U.S. Department of Education currently offers to reduce the interest rate by 0.25% on the federal student loans it owns if the you sign up with your loan servicer to have your monthly loan payments automatically deducted from a checking or savings account.
For more information ...

- Contact your loan servicer(s)
- Refer to online resources, e.g.,
  - Federal student loan repayment: StudentAid.gov
  - Federal loan “Repayment Estimator”: StudentLoans.gov
  - Federal Direct Consolidation Loans: StudentLoans.gov
  - Public service: StudentAid.ed.gov/publicservice
  - National Student Loan Data System: NSLDS.ed.gov
  - Federal Student Aid PIN: PIN.ed.gov
  - Free annual credit report: AnnualCreditReport.com
BE STRATEGIC WHEN REPAYING YOUR LOANS!