

# Student Loan Repayment

*What you need to know to confidently and effectively repay your student loans.*

*Monday, April 19, 2010*

# The Basics

*“The only man who sticks closer to you in adversity than a friend is a creditor.”*

-Unknown

# Some Basic Rules for Loan Repayment

- Standard repayment is 10-years. If you do not make any changes, this is the default option that you will begin repaying your loans under.
- There is no prepayment penalty on any of these loans
- Lenders must allow you to switch at least once each year but most will let you switch more often if necessary
- Your first stop for any changes to your loans should be your lender
- You have protections built in to your student loans. DO NOT fall behind or default on these payments. There are many options that you have to avoid this!

# Some Basic Terms for Loan Repayment

## • Subsidized

- This loan **does not** accrue interest until you enter repayment (after graduation + any grace period)

## • Unsubsidized

- **Does** accrue interest while you are in school
- not required to pay that interest while in school
- Interest is not capitalized until you enter repayment

## • Grace period

- The period of time between graduation and the date you are required to begin repaying your loans
- Grace periods vary according to loan type
  - Perkins – 9 months
  - Stafford – 6 months
  - Grad PLUS – none
  - Private – varies according to terms, usually none

**Q: “When do I Have to Start Repaying My Loans?”**

**A: “That depends on the type of loan.”**

# Loan Terms & Grace Periods

## Perkins Loans

- 5%, subsidized, 9-month grace period

## Subsidized Stafford Loans

- 6.8%, subsidized, 6-month grace period

## Unsubsidized Stafford Loans

- 6.8%, unsubsidized, 6-month grace period
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## Grad PLUS Loans

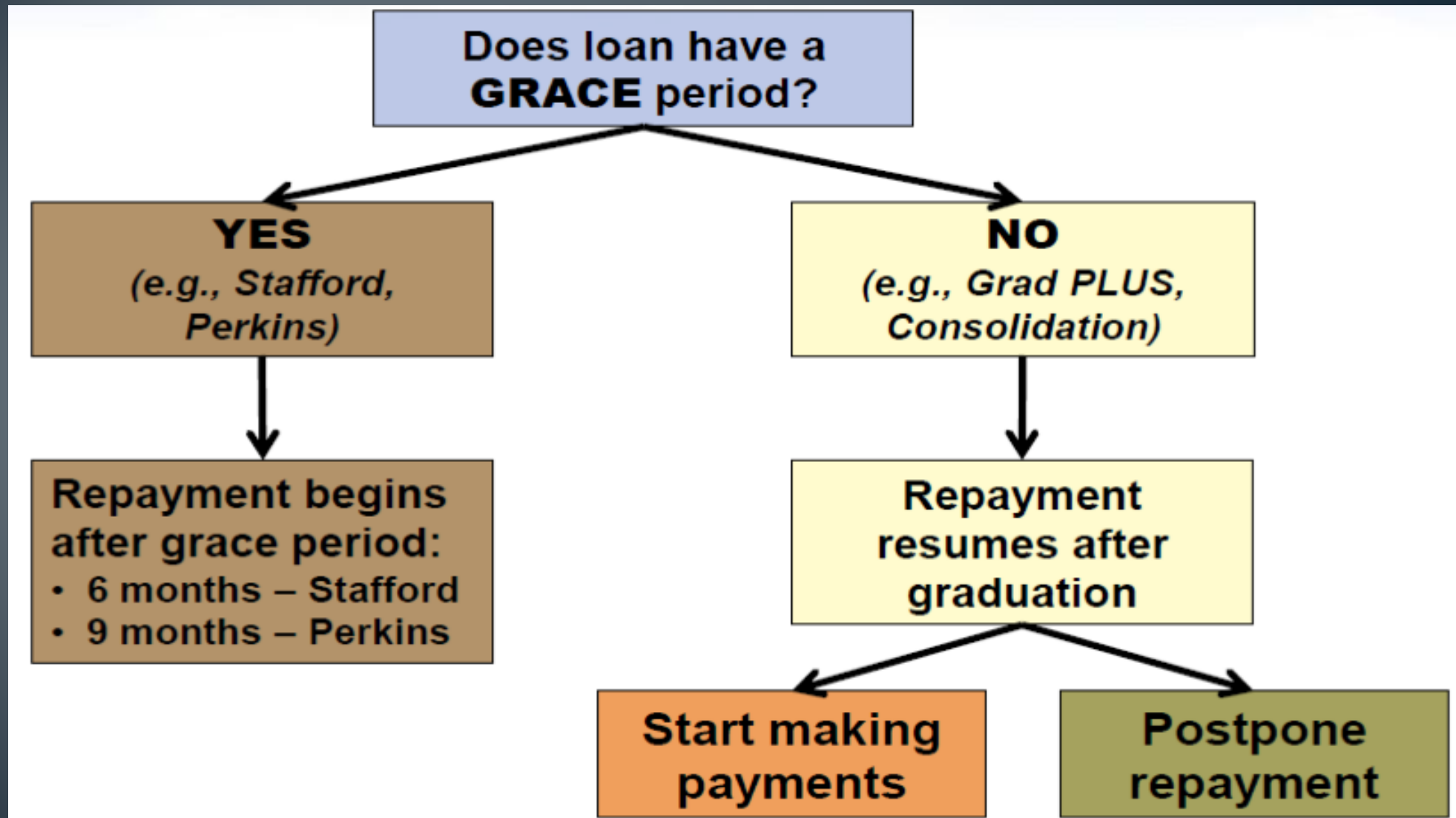
8.5%, unsubsidized, no grace period (6-month forbearance is common)

-OR-

## Private Loans

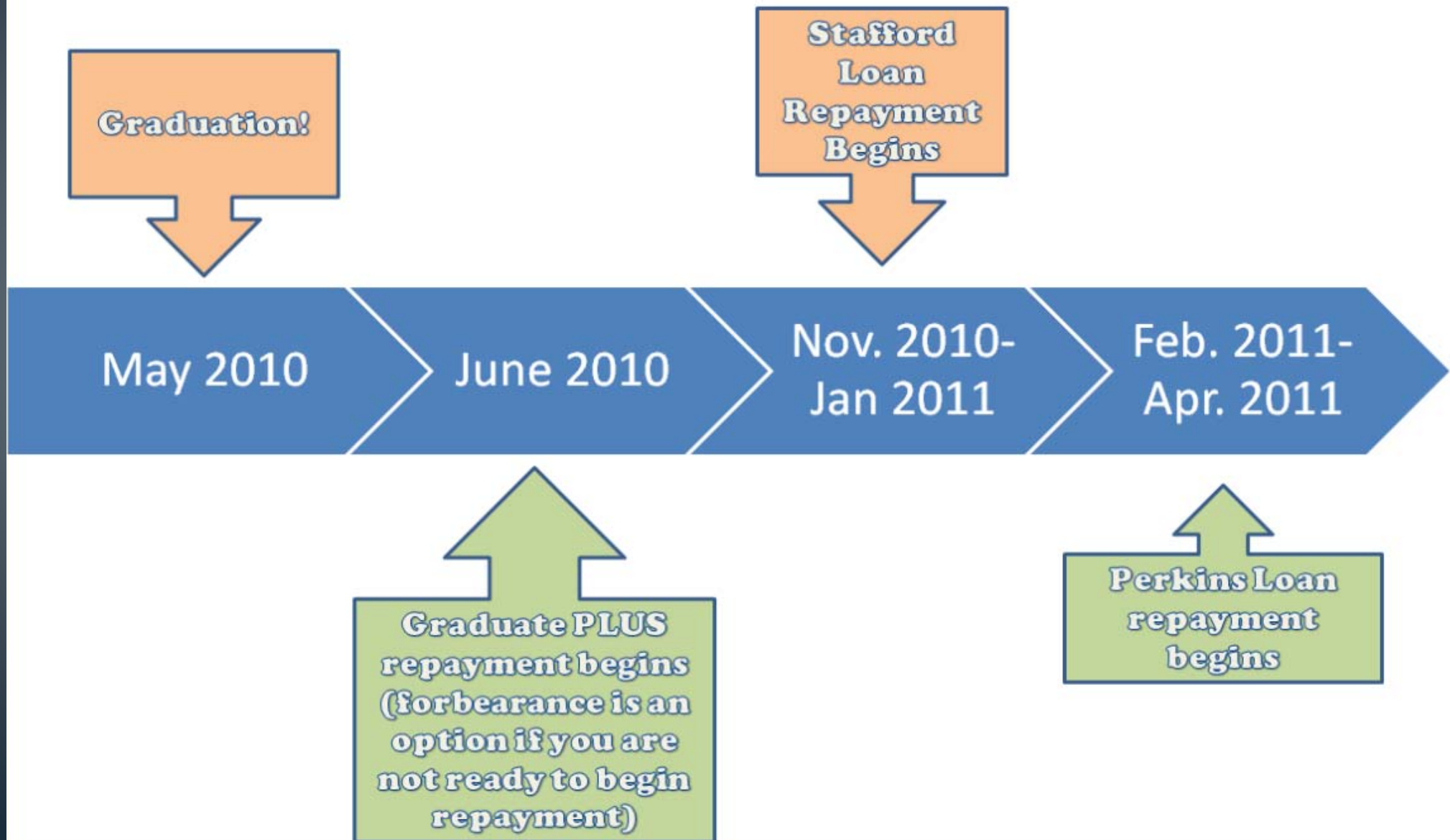
Variable interest rate, usually no grace period

# Loan Repayment Flow Chart





# Loan Repayment Timeline





“Now I Know *WHEN* to Pay. But what are my  
options on *HOW* to Repay?”

# Repayment Plans

## Standard Repayment

- Automatically assigned if you do not select a different option within 45 days of being notified by the lender to choose a repayment plan. Standard plans have the highest monthly payments.

## Extended Repayment

- Eligible if total outstanding principal and interest exceeds \$30,000
- May pay on a fixed or graduated payment schedule not to exceed 25 years
- Lower monthly payments, more interest paid in total

## Graduated Repayment

- Payments usually increase every two years.
- Loan still must be paid over a period of 10 years.
- If your loan balance is high enough, you can make graduated payments as part of an extended repayment plan.
- Graduated plans tend to work best for borrowers who are just starting out and are likely to see relatively quick increases in earnings over time

Options	Payment Structure	Max. Term
Standard	Fixed	10 yrs
Graduated	Tiered	10 yrs
Extended	Fixed or tiered	25 yrs
Income-Based (IBR)	Adjusted annually	25 yrs

**Can change plans at least once every 12 months, if needed**

## Income-Based Repayment

- Monthly payment amount is based on earnings, not total debt
- Counts as a qualifying payment for either 10-year public service loan forgiveness or 25-year forgiveness

# A Comparison of Repayment Plans

Different options are available depending on your goals.

*For a borrower with \$100,000 in Stafford Loans:*

	Standard	Graduated	Extended	IBR
Monthly Payment	\$1,151	\$567 (2 yrs)	\$694	\$297 (1 <sup>st</sup> yr)
		\$1,353 (8 yrs)		
Maximum Payment Period	10 yrs	10 yrs	25 yrs	n/a
Total Paid	\$138,096	\$143,530	\$208,222	n/a
<b>Assumptions:</b> - 6.80% fixed interest rate - No payment incentives - For IBR: - Household AGI = \$40,000 in year 1 - 2009 Poverty Guideline for household size of 1 = \$10,830 - For ISR: - Household AGI = \$40,000 in year 1, 4% of income used				

# Special Circumstances

*“Running into debt isn’t so bad. It’s running into creditors that hurts.”*

-Unknown

I can't make payments on my loans yet.

What do I do?

- First and foremost, DO NOT fall behind or default on payments. There are many options to assist you with loan repayment, but most are no longer an option once a borrower defaults on their loans.
- Be aware of your loan terms and grace periods
- Apply for Income-Based Repayment
- Apply for a forbearance
- Modify your loan repayment plan

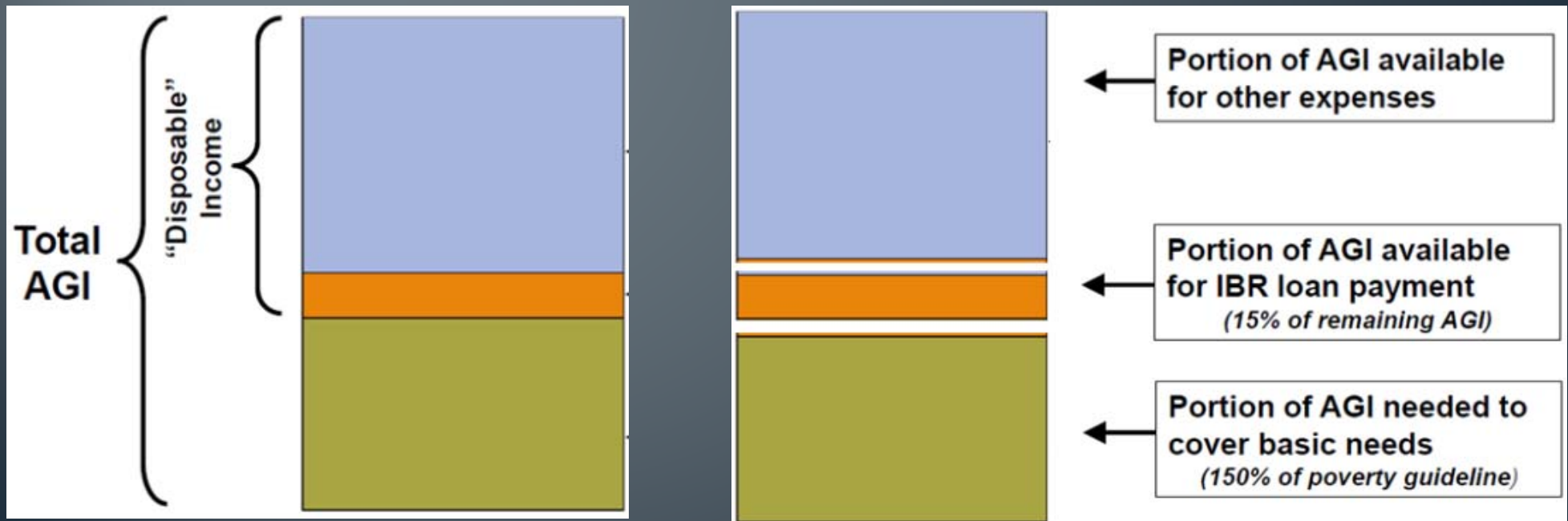
# Using IBR when Loan Repayment is not Possible

**Income Based Repayment (IBR)** - Your loan payments are based on your *salary, and not your debt level*, according to a federal formula.



# How is my IBR payment amount determined?

- First, 150% of poverty line for your family size is set aside for basic needs. This is essentially “protected income”.
- The remaining difference between that “basic needs” level and your AGI (Adj. Gross Income) is considered your “disposable” or “discretionary” income.
- Your yearly loan payment is equal to 15% of discretionary income. Divide that number by 12 to obtain the monthly payment amount.



# Additional IBR Information

- Unpaid interest that accrues on Subsidized Stafford debt will be subsidized for up to 3 years during IBR
- Any outstanding eligible loan balance is cancelled after 25 years of being “economically challenged”

Income-Based Repayment (IBR) Monthly Loan Payment					
Annual AGI	Family Size				
	1	2	3	4	5
\$40,000	\$297	\$227	\$157	\$87	\$16
\$45,000	\$359	\$289	\$219	\$149	\$79
\$50,000	\$422	\$352	\$282	\$212	\$141
\$55,000	\$484	\$414	\$344	\$274	\$204
\$60,000	\$547	\$477	\$407	\$337	\$266
\$65,000	\$609	\$539	\$469	\$399	\$329
\$70,000	\$672	\$602	\$532	\$462	\$391
\$75,000	\$734	\$664	\$594	\$524	\$454
\$80,000	\$797	\$727	\$657	\$587	\$516
\$85,000	\$859	\$789	\$719	\$649	\$579
\$90,000	\$922	\$852	\$782	\$712	\$641
\$95,000	\$984	\$914	\$844	\$774	\$704
\$100,000	\$1,047	\$977	\$907	\$837	\$766

# How are AGI and Household Size Determined?

- **Household Adjusted Gross Income (AGI)**
  - AGI of borrower
  - AGI of borrower's spouse (if married) only if filing a joint federal income tax return, also includes spouse's eligible debt if AGI included
- **Household size**
  - Borrower
  - Spouse (if married)
  - Dependent children residing in household (including an unborn child)
  - Other dependents living in household who receive at least 50% of their support from borrower

## How do I know if I qualify for IBR?

- 1) Take your **annual**, Standard 10-year fixed payment amount (monthly payment x 12)
- 2) If that amount is **greater than** what you would pay annually on IBR (15% of discretionary income), you should qualify for IBR.

## So how do I get on IBR?

- **Contact your lender to request a change in repayment plan. Your lender should be able to provide each of the following required forms:**
  - Must submit following to loan servicer:
    - Income-Based Repayment (IBR) Plan request form
    - Request for Transcript of Tax Return (IRS Form 4506-T)
- If federal tax return was not filed or current income is significantly lower, must submit:
  - IBR Plan Alternative Documentation of Income

## Additional IBR Information

- Under IBR, you are not required to pay accruing interest (be careful!)
- Monthly payment can be \$0
  - Still counts as a payment toward the 25-year forgiveness
- Unpaid interest on Subsidized Stafford Loans is covered for first 3 years under IBR
- Borrower gets a monthly statement saying what they owe



# Deferments and Forbearances

- A **deferment** is a period of time in which you do not have to make any payments on your student loans, and during which time no interest accrues on **subsidized loans** (Perkins, Subsidized Stafford Loan). In the past, deferments were often the best option for delaying repayment. However, recent changes to the eligibility criteria for deferments means most professional graduates will not qualify for a deferment.
- **Forbearance** is a temporary suspension of monthly payments that is granted under certain circumstances by your lender.
- Forbearances are not as helpful as deferments because interest continues to accrue on all loans while the payments are postponed. Be careful: The loan balance can increase very quickly!
- To request a forbearance, contact your lender. A common type of forbearance is for the lender to delay repayment on Graduate PLUS loans until the 6-month grace period for Stafford Loans has expired. That way, you can begin paying the majority of loans at one time rather than piecemeal.

## Extending/Modifying your Repayment Plan

- If you do not qualify for a forbearance, you may want to modify your payment plan to lower the required monthly payments.
- This can be done in several ways, but there are two options that probably make the most sense:

**(1) Income Based Repayment (IBR)**

**-or-**

**(2) Extended or Graduated Repayment**

## Extending/Modifying your Repayment Plan

- Income Based Repayment (IBR)-Your loan payments are based on your *salary, and not your debt level*, according to a federal formula.
- Extended or Graduated Repayment-Your payments are still based on your total debt amount, but the payment period is extended or “back-loaded” to decrease monthly loan payments
- **PLEASE REMEMBER:** The longer you stay on these lower payment plans, the more interest will accrue! This means that you will ultimately pay a higher total amount on your student loans.

## Bar Study Loans

- Some lenders offer Bar Study Loans, which are intended to cover the cost of studying for the bar exam.
- Sallie Mae, Citibank, Wells Fargo, are the only lenders that we are currently aware of offering Bar Study Loans
- These loans have a limit of up to \$15,000 and must be certified by the school
- Bar Study Loans can be borrowed in the current aid year or up to one year after graduation, as long as you will be sitting for the bar exam within that year
- These loans are credit-based, variable rate loans. Depending on your credit, you may need a co-signer. While helpful, these loans do accrue interest faster than most federal loans.

## Loan Consolidation

- Loan consolidation only really makes sense for borrowers who are attempting to gain public service loan forgiveness. For these borrowers, their current FFELP loans must be converted to Direct Loans to be forgiven. You do this by consolidating them all into a Direct Consolidation Loan, which makes all federal debt Direct Loans, and therefore *forgivable!*
- For other borrowers, consolidation doesn't make sense for the following reasons:
  - There is no advantage in interest rates. You simply get a weighted average.
  - You lose any “borrower benefits” you have on the original loans that would be consolidated.
  - You lose the ability to direct additional payments towards particular loans.

# Public Service Loan Forgiveness

- Graduates who work in public service for 10 years will pay on an income basis (IBR) for that ten years, not on the basis of total debt.
- Any remaining federal debt after 120 monthly payments (10 years) will be completely forgiven by the federal government.
- “Public Service” is defined as any work for federal, state, or local government, or for any 501(c)(3) nonprofit.
- Many legal positions that fit under this umbrella will be eligible for Duke’s Loan Repayment Assistance Program (LRAP).



## Wrapping it All Up

- Remember, your student loans come with myriad repayment options. Use them to assure you are meeting your financial goals!
- If you are unable to make loan payments, consider:
  - 1) Placing your loans on IBR
  - 2) Applying for a forbearance
  - 3) Extending your repayment
- Last, but not least, we are **ALWAYS** here to assist you, both before and after graduation. Please don't hesitate to call, email, or stop by!